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West Europe Report



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9 April 1984

WEST EUROPE REPORT

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REFORMED CHURCH REJECTS NEW NUCLEAR ARMS

The Hague ANP NEWS BULLETIN in English 19 Mar 84

[Text] The Hague, 19 Mar--The Synod of the Reformed (Hervormde) Church, the largest Dutch Protestant denomination, urged the government on Friday to reject deployment of new nuclear weapons on Dutch soil.

The call, following closely on the heels of the liberal (VVD) party's stiffest warning so far to its Christian Democrat (CDA) coalition partners, sparked off another weekend of heated debate on the issue.

The Dutch cabinet is due to decide by June whether to deploy the 48 cruise missiles allotted to the Netherlands under the 1979 NATO deploy-and-talk decision.

The missiles must be in place by 1986 if the cabinet decides to go ahead with the siting at Woensdrecht airbase.

The Synod of the Reformed Church, which has almost three million members, voted by 37 to 15 to call on the government to reject new nuclear missiles of any kind, and to remove any currently available nuclear weapons.

Loyalty Plea

The Netherlands' second-largest Protestant church the Gereformeerde Church, which counts Defence Minister Job de Ruiter among its members, made a similar call last week.

Liberal deputy prime minister Gijs van Aardenne, however, issued the strongest VVD warning yet on Friday that the Netherlands must remain loyal to NATO, and go ahead with siting.

He told a party congress that liberals would not accept any decision which could harm the NATO Alliance.

The statement increased fears that the issue could split the cabinet, as many senior CDA politicians either oppose siting or have serious doubts about the number of missiles proposed.

The Reformed Church vote was welcomed at the weekend by Mient-Jan Faber, secretary of the powerful Inter-Church Peace Council (IKV), who praised the Synod for its 'courage' in resisting political pressure not to comment on the issue.

Differing Views

The Inter-Church Committee for Multilateral Disarmament (ICTO) criticised the decision, saying such firm political statements made a barely credible impression when church members held such widely differing views on the question.

Liberal floor leader Ed Nijpels made a strong protest on Friday against the ABOP teachers union decision to join forthcoming protest actions against nuclear missiles.

The VVD was strongly opposed to teachers involving young children in a political action, and would raise the issue in the second chamber this week, he said, accusing the teachers of 'abusing' their position.

CSO: 3600/21

DIFFERENCES BETWEEN FLEMISH, WALLOON COMMUNISTS

[Amsterdam DE WAARHEID in Dutch 23 Feb 84 p 5]

[Article by Rinke van den Brink: "Belgian Communists Get (Language) Groups"]

[Text] As the last political party in Belgium, the Communists have adapted to the present-day state structure. Just like all other parties the Communists now also have separate autonomous Flemish and Walloon parties. There does, however, remain in existence a coordinating national body but both language groups are to a high degree independent.

At the 24th party congress in 1982, the Belgian Communists decided they would federalize the party; that is to say, split it up in a Dutch-speaking and a French-speaking group while maintaining a national administration. On 10 and 11 December of last year, the Walloon Communists held their first federal congress. The weekend of 18 and 19 February the Flemish Communists followed. With both these congresses the Communists in Belgium have adapted to the political situation which arose after the state reform of 1980, whereby a Flemish and a Walloon provincial government were established and the Brussels agglomeration obtained a special statute. The Brussels Communists are classified according to their language as belonging to either the Flemish or the Walloon party.

Common enemy

In contrast to the Socialists and Christian-Democrats, the two other Belgian parties with close ties to the labor movement, the Communist party has very emphatically opted for an incomplete split because, in the words of Claude Renard, the chairman of the Walloon Communists, "the Flemish, Walloon and Brussels workers are confronted with a bourgeoisie with one foreign policy and one economic policy which is aimed at domination by capital which in itself as a rule is international."

The Flemish chairman Jef Turf also views the continuing existence of a national communist party as "an expression of the fundamental solidarity in the North and South (Belgium - RvdB) against the common capitalistic enemy." All issues which fall under the provincial governments now fall under the responsibility of the Flemish and Walloon Communists respectively. National matters remain the authority of the national party leadership.

Besides the more or less external reason of the state reform of 1982 which has made federalizing almost inevitable, the two chairmen also advanced some reasons which made federalizing necessary. Turf emphasizes, in an article in the Flemish weekly DE RODE VAN [the Red Flag], that the establishment of independence on the part of the Flemish Communists is necessary in order to find a closer correspondence with Flemish reality. "Especially since the fifties the Western European Communist parties are looking for closer correspondence with the national reality as far as their political analysis and strategy is concerned."

In the case of the Flemish Communists, finding that correspondence was hindered by the large numerical majority of Walloons in the Belgian Communist party. Turf accordingly calls the federative congress "a historic moment for the Flemish Communists," "a new start." His Walloon counterpart Renard emphasizes the "differences as to the economic, social and cultural reality between the three regions and the two communities" in Belgium. As a result of the economic crisis those differences are further accentuated according to Renard. "The public opinion in the regions approaches the problems from separate viewpoints."

Eurocommunitic

Another reason which Turf and Renard do not mention in so many words but which definitely has played a role in the decision towards federalizing is the rather varying views which the majority of the Communists in the two language communities holds. The Walloon Communists are for the most part traditionally inclined. In Wallonia the party has a relatively strong position particularly in the steel industry.

The large Liege party district especially ranks as conservative. For example, it was from this district that the management and main editorial staff of the party newspaper DRAPEAU ROUGE and the party leadership were increasingly pressured to fire Jean-Paul Vankeerberghen, a foreign editor of Drapeau Rouge, or otherwise to force him to adjust his reporting on Eastern Europe to the views of the majority of Liege Communists. After a period of time in which increasingly often articles from Vankeerberghen were withheld from the columns of the paper by the chief editor, or were published merely in edited form, Vankeerberghen was ultimately dismissed orally in June of last year because he, as was later confirmed to him in writing, was not regarded as being capable anymore of propagating and defending the party's viewpoints in the columns of the paper."

The Flemish Communists are generally considered to be more eurocommunist oriented. Electorally speaking, they represent considerably less than they do in Wallonia. In Flanders, the Communists find it easier to associate with new special movements such as the environmental movement, the modern peace movement, or the homosexual movement. In contrast to the Walloon Communists, the Flemish Communists also strive expressly for leftist cooperation.

At the most recent local elections in a number of Flemish municipalities had joint tickets of the Communists with Trotskyites, here and there with the socialists, with non-party members and with the environmental party Agalev.

Euro elections

In the first instance, the Flemish Communist party has announced that it will not run a ticket of its own at the European elections of June next year, but that it will support the Socialist candidates Jef Ulburghs and Willy Vernimmen, two well-known supporters of leftist cooperation (which in Belgium already is called the Breakthrough idea). After strongly disapproving reactions on the part of the socialist party chairman Karel van Miert on Monday and Tuesday ("progressive cooperation means no cooperation with Communists"), the Flemish Communists will now most probably submit a ticket of their own, a so-called open list headed by party chairman Turf, on which also non-communist leftist Belgians will be represented.

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CSO: 3614/48

PCF ECONOMIST HERZOG ON SALARIES, INDUSTRIAL MODERNIZATION

Paris L'HUMANITE in French 8 Mar 84 p 4

[Interview with Philippe Herzog by Martine Bulard: "Promote Employment to Succeed in Modernization"; date and place not specified]

[Text] The Communist Party's economic review has organized a pluralist debate.

The annual forum of ECONOMIE ET POLITIQUE, which this year will meet from Friday evening, 16 March, to Sunday, 18 March,* will have as its theme "Promote Employment to Succeed in Modernization of Industry and Technological Changes in France." We asked Philippe Herzog, member of the French Communist Party (PCF) Political Bureau, about the purposes of the debate.

[Question] The chosen subject is a current one.

[Answer] Indeed. The employment situation is very serious. It is an illusion to believe that one can prepare the country's future by undertaking massive elimination of jobs. It can and must be done another way. We will submit proposals for promoting employment and increasing job efficiency. That is how we can succeed in modernization of our economy.

[Question] Who is going to participate in this forum?

[Answer] Leading personalities, professionals, elected officials, economists, trade unionists, workers and owners, and party members. It is a pluralist dialogue with the communists.

We have already been assured of the participation of the federal leaders of the General Confederation of Labor (CGT) and the National Education Federation (FEN); of personalities such as Bruno Bertez, chief editor of LA VIE FRANCAISE, Jacques Freyssinet, president of the National Employment Agency (ANPE), Louis Gallois, director general of the Ministry of Economy, Pierre

* The forum will begin on Friday evening, 16 March at 2030 with an introduction by Paul Boccara and a roundtable. It will continue throughout Saturday and Sunday morning with speeches and debates. It will be closed by Philippe Herzog. The forum will be held at Exhibitions Park, Versailles Gate, Paris (main entrance, building 7, level 3).

Goldberg, mayor of Montluçon, Xavier Greffe, director of the "Work and Society" research center at the University of Paris-Dauphine, and Robert Salais, director of the National Institute of Statistics and Economic Studies (INSEE) research unit. Minister of Employment Jack Ralite will give us the pleasure of his participation in our work.

We are still awaiting other positive responses...

[Question] How was the forum prepared?

[Answer] We have been preparing it for 2 months, in relationship to the questions raised in the field, with the cooperation of the PCF economic section, the company, regional, science and technical sectors, and the women's sector. Several members of the PCF Political Bureau will participate in the proceedings.

[Question] You mentioned contact with the field. How is that taking place?

[Question] In struggles, you clarify the real causes for elimination of jobs. We have determined that it is a matter of abandoning certain production and of capitalist mismanagement and not modernization. You make clear the serious consequences of these job eliminations. You develop serious proposals. The forum will have the benefit of this experience and will present its ideas for discussion.

We have established a close link with the companies and regions: Nord-Pas-de-Calais, Lorraine, Rhone-Alpes, Limousin, etc.

[Question] What are the objectives of the debate?

[Answer] Everyone will understand that this forum will have considerable political impact. There are struggles and also discouragements. The media poison opinion with rightist ideas regarding the economy. We must counter them. We must get back to the basis of things, to the capitalist management in face of the crisis of capitalism. And we must push forward very strongly serious proposals in these struggles. In January in the Central Committee we came up with the idea of an economic recovery through promotion of jobs and their efficiency. We are going to develop this and publicize it.

[Question] At a time when everyone is talking about elimination of jobs, is this a very realistic proposal?

[Answer] There is very strong pressure on the workers in an effort to make them accept the job eliminations and the drop in purchasing power. Yesterday, it was gasoline; today, it is technological changes. That is even more serious.

They pass over in complete silence the choices of the multinational corporations and the capitalist fortunes. All the strategies of companies and banks are aimed at increasing financial productivity and hence attacking jobs. In their view, the new technologies will help to make profit and that is all.

market, unemployment, and a significant delay in new production.

This is true of companies with obvious problems, such as Peugeot, as well as companies supposedly in good shape, such as GCE or Saint-Gobain.

[Question] However, is there not a lack of resources?

[Answer] Never has there been so much financial waste. This problem cannot be evaded. Those who are avoiding the debate with the communists for this reason lack courage and refuse to face realities.

[Question] How can we undertake to create jobs?

[Answer] We have to take past experience into account: recovery through consumption, which has not lasted; and support through investment and by exports that is being talked about now, not without serious illusions.

On the contrary, what we would like is a lasting growth. We envisage a progressive recovery, step by step, with decentralized action, reforms, and a new coherence in economic policy.

First, everywhere, objectives for expansion of employment. This requires questioning the current production strategies. We must combine defense of and modernization of the basic industries, broaden the range and introduce new products. This implies a real offensive to increase the markets, depending on reconquering the domestic market and very bold cooperation between French companies and on the international level, particularly with the Third World.

[Question] How do we reconquer the markets?

[Answer] Production must be competitive. However, we are totally opposed to reduction of wage costs because that harms the economy's markets and worsens the problem. On the other hand, introducing new technologies requires much larger expenditure for research, training, and upgrading. These are the capitalist burdens that must be reduced. They are a burden on resale prices. For example, financial and commercial investments, takeovers of corporations, speculation nest eggs, capital outflows, and wealth deductions: the more you reduce them, the more you reduce the costs and the more you free resources to defend and create jobs with modernization. A genuine bank and tax reform is indispensable to contribute to reducing these burdens and creating enduring growth.

By handling things that way, one can produce more and better, and then the substitution of machines for men does not mean unemployment but access to more qualified jobs. We will give some examples during the debate.

[Question] It cannot be said that these are the current approaches of the industrial groups and the banks.

[Answer] Certainly, this goes against the criteria of financial profitability. However, we must know what we want: a worsening of unemployment, or its reduction? By asserting the rights of workers,

nationalizations, and decentralization, we must push forward in our struggles for practical measures of new types of management. The cooperation among companies is, for example, a basic issue, and underemphasized. Also, the economic information and the stifling of any pluralist debate on the cause of the difficulties and the proposals are intolerable. We must struggle at all levels to establish the conditions for pluralist information and debate, all the way from the companies to national television.

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CSO: 3519/247

MARCHAIS ON MUNICIPAL, EUROPEAN ELECTIONS

Paris L'HUMANITE in French 7 Mar 84 p 4

[Article by Gerald Rossi: "Defeat the Violent Offensive of the Right: the 'Technological Changes' Are Only an Excuse To Try To Justify Scrapping Our Industrial Potential"]

[Text] Almost 800 secretaries and treasurers of cells and members of section committees met yesterday evening in the Grange aux Belles hall in Paris, in a friendly atmosphere. Speaking before Georges Marchais, Henri Malberg, first secretary of the Paris federation, summed up the 1984 card renewal. "We have proved that we can radically change things," he said, "because this was a real success." Indeed, compared to the end of last year, 76.15 percent of the cards have been renewed, of which 80.2 percent have been in company cells. Those who achieved this result also learned that 560 new members were enlisted during the 800 people's assemblies that have already been held. Finally, in 20 sections of Paris out of 94, the renewal of cards has been completed. The goal is to have completely finished here by the end of March. The federation secretary continued: "Our party is the major force confronting the anticommunist outburst, and its strengthening and activity are decisive."

Speaking to an audience that did not hide its satisfaction at the announcement of these results, Henri Malberg, while stressing the importance of the circulation of L'HUMANITE and L'HUMANITE DIMANCHE as "the best means for regular political relationship with all party members and with the very numerous sympathizers," announced an original objective. Every week, the sections and districts of the capital "will choose the location where they will methodically organize something: a tour, sale booth, etc." On the weekend of 22, 23 and 24 March, there will be an initiative for a "local mass sale" in every district.

Finally, the contribution results are also interesting. The total collected from communists was 70 million centimes, and the dues increased by 25 percent, keeping close to real wages, and also reflecting the larger number of those paying dues. Finally, we remind that the subscription target for L'HUMANITE was exceeded in Paris.

At the beginning of March, particularly in renewal of cards, "members could not remember ever having achieved such high figures." Thus, though guarding against boastfulness, Parisian communists were happy last night. With reason.

In his speech Georges Marchais first reviewed the main features of the situation, which is characterized by "a hard, bitter class confrontation."

He condemned the false reasons advanced by the Right and the owners for eliminating entire portions of production, particularly the progress in science and techniques.

He asked: "What are the reasons of a technical nature for having emptied Paris of its industrial substance? Certainly none! How many machines has Peugeot installed to justify the planned elimination of 5,200 jobs at Citroen and the 1,900 eliminated at Talbot-Poissy? Not a single one! What modernizations are planned at DBT in the 19th district, Constructions de Clichy in Bobigny, Hure in Bagneux, Dufour in Montreuil, SKF in Ivry, Kodak in Vincennes, Cables de Lyons in Bezons, Montsouris in Massy, Cellophane in Mantes, and in more than 300 companies in our Parisian region that are threatened with closing or layoffs? Here again, none! The 'technological changes' are only an unacceptable excuse to try to justify a scrapping of our national and regional production potential."

Left Holding Up Well

The recession scenario chosen by the Right and the owners is in no way inevitable. There are "anticrisis measures." And the Left can "defeat this violent offensive."

To demonstrate this, Georges Marchais cited the results of the partial municipal elections. "To listen to the Right," he said, expressing regret that radio and television have been suggesting the same picture, "these elections settled everything, by a tidal wave of the Rally for the Republic (RPR) and the French Democratic Union (UDF). What is the truth?

"Since the beginning of the year there have been four elections following the invalidation of union municipalities with a communist mayor: Frouard and Blenod-les-Pont-a-Mousson in Meurthe-et-Moselle, La Seyne in the Var, and Etampes in the Essonne. In three of these--Frouard, Blenod and Etampes--the Left was reelected, as it was also in La Seyne, even though the Right's power move temporarily robbed it of its victory.

"Since the beginning of the year there have also been two elections following invalidation of union municipalities with a socialist mayor: Draguignan in the Var, and Ouistreham in the Calvados. The Left was beaten in Draguignan and reelected in Ouistreham.

"Far from showing a downward trend, these results justify the conclusion to the contrary of the Left holding up well, with even some recovery in comparison to 1983. Without overstating, we can also say that they show us the road to follow. No good will be accomplished by leaving the field open to the Right. In each concrete situation--each election, certainly, but also each problem faced--success of the popular movement depends on the vigor of the riposte to the forces of the past, on the degree of joining together in the offensive, constructive and uniting action necessary for going forward." Georges Marchais stressed that the Right is fully aware of this reality, and

that this must be seen as the reason for the anticommunist campaign, which is aimed at the Left as a whole.

National Stake of the Highest Importance

The PCF secretary general then discussed the campaign for the upcoming European elections.

"The objective of these elections is to renew the European Assembly, and if we strongly emphasize the necessity for our people to have a large number of communist elected members in Strasbourg to act for a Europe of social progress, democracy, cooperation, and peace, we must be fully aware that this electoral battle will be for a national stake of the highest importance. It is not just an aside added to our struggle, an interlude in the party's activity. It lies at the very heart of the vigorous counteroffensive that we want to develop with our people to defeat the destructive plans of the Right and the owners.

"Thus, we are going to commit all our forces in the battle to assure success of the list to be finally approved by the party's national council on next Tuesday and Wednesday. We can do so even better since these elections will be on a proportional basis. Everyone knows this.

"This is the type of vote that we favor, in accordance with the agreement we reached with the Socialist Party. It is the only fair method, since each vote has the same weight. And it is the only fully democratic method, since it enables all opinions to be expressed and to obtain a representation in conformance with their respective strength.

"Yet, the Right has decided to submit a single list for the elections. Does that mean that the RPR and UDF have merged? Not at all. The opposing ambitions of their leaders are well known to the public. Thus, what jumps to the eye is the political nature of this combination.

"Clarity of the debate is of absolutely no interest to the RPR and the UDF. The only thing they consider is the electoral tactic that seems to them most effective for their evil cause: revenge, and as quickly as possible. What the Right wants is to transform the European elections into a prelude for the future legislative and presidential elections, that is, to prove that it can regain the majority. In summary, the issue created, in this vote designed precisely to allow each party to make its own proposals without hindrance, will be whether to vote Right or to vote Left. In the view of the Right, these elections should not promote the expression of diversity, but accentuate the bipolarization of French political life."

Assure Full Freedom of Choice

"In 1981, we drew the attention of French men and women to the dangers of the presidential election's particular system, which tends to narrow the choice to only two candidates regarded as being in the best position and to promote in their favor the 'useful vote' reaction. Even if these conditions do not explain everything, as we analyzed at the time of the 24th congress, it

remains that they operated strongly against our party in the presidential election and the legislative elections that followed. Men and women voters abandoned their longtime communist vote and, beginning in the first round, went over to Socialist candidates. Ultimately, we must tell things like they are: what has been called the "useful vote" leads to neglecting the indispensable thinking about the nature of the problems faced and the substance of methods to be applied to solve them. However, since these solutions are not provided, the same problems persist. Experience confirms this, and is beginning to open many eyes.

"That is why, addressing ourselves to the communist voters who considered it worthwhile voting in 1981 and to the democratic public in the country as a whole, we say: Do not let the Right Americanize French political life. If the contagion prevails, and if each future election takes place in the narrow framework of a confrontation limited to two opponents, then the French will witness a permanent reduction, even denial, of their freedom of choice, and the richness that constitutes the originality of the French national reality will wither. Also, by losing the diversity of the movements of which it is composed, the Left would inevitably lose its soul, which constitutes the strength of its struggle.

"In contrast to the confused, artificial, and deceiving coalition of the Right, the Left is united on a clear basis: the commitments made in 1981 before the country and approved by universal suffrage, and the agreement with the Socialist Party in June 1981 that we renewed on 1 December 1983. Our loyalty and united will to keep these commitments is total. More than ever, we want to be, we are, the party of the union, the union of all the popular forces, the union of the Left.

"It is precisely because experience teaches us that union cannot tolerate confusion that we are attached, as our right arm, to everything that constitutes the originality of our party. We have said it with the Socialist Party that the necessary cohesion of the majority goes hand in hand with 'commitment to the individual personality and the fundamental positions of each of the parties.' This is why the French Communist Party will submit its own list for the European elections.

People delight in loudly proclaiming these days, after this or that television broadcast, the advent of a new, independent, original language, rampant with politician's egotism. We reply: So! We are going to make heard, during this election campaign, the new, independent and original language of the PCF! We are going to clearly make known our positions in order to go forward and contribute to blocking the devastating plans of the Right and the owners. The more votes the list presented by our party receives, the better it will be for the Left and the success of the policy of change."

Living and Open Party

Concluding his address, Georges Marchais stressed the responsibilities of our party today and the life and style of work of each of its organizations. "We need a living, active party, with all its strength available to carry out

its struggle. A communist who does not yet have his 1984 card is of necessity a man, woman, or youth who is currently on the sideline of this struggle.

"We need a communist party that is up to date with the situation, which discusses and acts. The communists need to discuss a lot, to explain their points of view, and to understand, because we are in an extremely complicated situation. A cell that has not yet issued his card to each of its members is a cell that is necessarily depriving itself of valuable support in thinking and action.

"We need a communist party that is wide open to the outside, that brings together and strengthens itself. A cell that has not organized a popular assembly, or which has done so on a small scale and has not strengthened itself, is of necessity a cell that is not doing its full part in promoting the popular action necessary today.

"Listening to me say this, some comrades may think: Sure, all that is right in theory, but practice is another matter...

"Obviously. I do not claim that it is always easy to have activity that measures up to the stakes of the situation and the strengthening of our party. There is the pressure of circumstances, and not everything is in our hands. However, I also say: Sometimes there are difficulties that result from poor understanding of what our party is.

"A communist is not an exceptional being, and our party is not an elite organization, reserved for a few. A communist is a working man or woman like the others, with the same life, the same problems, and the same joys. He is a man or woman who aspires to justice, progress, freedom and peace, and who wants, in accordance with his opportunities and his desires, to contribute to serving these great human causes. In France today is it only members of the PCF who share these aspirations? Naturally not, so let us help them to do so.

"Let us frankly ask the question: Do we always project around us the image of being people like everyone else, as we really are? Do we always understand that it is easy to become a communist and that remaining so does not mean being subjected to interrupting tasks? Don't we sometimes have the tendency to create more internal meetings--certainly necessary--to the detriment of what should be the main thing for every communist: being with the people?

"One thing is certain: there are immense possibilities for making our proposals understood and for strengthening our party. All narrow vision, limited by attachment, must be eliminated. We must do everything to ensure that the strengthening of our party is a permanent, effective concern of each organization, of each communist."

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CSO: 3519/247

MARCHAIS ON SCHOOLS, RIGHT WING, INDUSTRIAL MODERNIZATION

Paris L'HUMANITE in French 5 Mar 84 p 4

[Text] In his introduction to the debate with the Puy-de-Dome party members, Georges Marchais first reviewed the main features of the country's economic situation.

The record of the Left, in the almost 3 years it has been leading the country, is "important, indisputable," he stressed. At the same time, "some major difficulties persist," particularly in respect to employment and purchase power.

In the view of the secretary general of the French Communist Party (PCF), "This worsening of the situation is disturbing. It gives rise to a legitimate concern, and it does not create the best conditions for countering the Right's assault against the policy of change."

He continued: "I am well aware that when we say this they respond: 'Yes, the situation is difficult, but what can you expect, it is a crisis... Our economy is sick, it has aged... To put it back on its feet we have to modernize it, restructure our industry, use to the full the technical progress, and, when one machine comes to do by itself the work of 10 men, that inevitably causes layoffs...' In sum, the closing of a factory, the stopping of production, and increased unemployment are supposedly only a purely technical matter, the inescapable result of technological changes that one can do nothing about. I say that this reasoning is not valid."

Choices and Not Technical Imperatives

"Certainly, there is no denying the necessity to modernize French industry, which the Right in power harmed for so many years. But today is that the real issue in those sectors that are in difficulties?

"Is it because we are modernizing the coal industry that it is planned to eliminate 30,000 jobs in the mines? No! It is because we are abandoning coal production. This is not a technical imperative, it is a choice.

"Is it because we are modernizing iron and steel industry that it is planned to eliminate 30,000 jobs in this essential industrial sector? No! It is because we are abandoning iron and steel industry. Not a technical imperative, but a choice.

"Is it because of modernization of naval construction that it is planned to eliminate 5,000 jobs? No! It is because we are abandoning naval construction. Not a technical imperative, but a choice.

"And the same answer applies for automobiles, mechanical engineering, construction and building, telephone, chemical industry, textiles, and printing, in which the National Council of French Employers (CNPf) has planned scores, hundreds of thousands of job eliminations. Who can be made to believe that by eliminating their jobs these men and women workers, who are rightly concerned about their future, will be made more qualified to perform them? Who can be made to believe that by crossing them off the list the factories will be made more modern? All this is not the real reason.

"However, they try to justify these choices, which do not arise from technical imperatives, by financial and economic reasons. We are told: 'All these sectors are financial sinkholes. Everything that is spent to keep them afloat is that much less available to modernize the other industrial branches.'

"I answer: That argument is not valid either. First, from the financial aspect, because short of giving up meeting the needs of a modern country such as France--which would mean, in effect, a radical decline in standard of living--we will still have to buy what we no longer produce! This will cost money, much more than keeping these essential trump cards.

"And moreover, to analyze further, does France produce too much coal? We import some! Do we produce too many ships, too many cars, too many machines, too many clothes? We import all these things! Thus, there certainly are markets in France for all our industries that are in difficulties, and I am not even mentioning the great possibilities for international cooperation. Satisfying these needs with imports, and eliminating useful production that is essential to the country, is thus not a technical imperative either, it is a choice.

"It is this that should be democratically debated with the French, and not all this nonsense, false evidence, and pettifoggery with which the CNPF leaders cram their speeches."

Current Economic Difficulties Not Fatal

"On the basis of what criteria is it being decided to stop a form of production instead of reviving it, to eliminate jobs instead of creating some, to put the country deeper into the crisis rather than moving forward toward its solution? One criterion is at the basis of all these choices: financial profitability. Yes, today a capitalist makes more money by getting involved in financial operations, speculation, and export of his capital than by investing in many production sectors. Currently, more than 60 percent of the resources available to companies to develop activity and invest is diverted into operations of this kind. This explains the unbelievable, outrageous paradox that they try at all costs to hide from the French: never have the threats to production, employment, and purchasing power been as clear, and never in the same period has the public credit granted to owners been as high, to the extent that profits have increased by 25 percent in 2 years!

"However, this situation is in no way inevitable. Yes, resolving the serious problems that exist in accordance with the commitments made by the Left in 1981 is possible!

"We can produce more and better if we start from the needs of people and regions.

"We can find markets for our production if we really set the objective of reconquering the domestic market, and if we seize all the opportunities for new cooperation.

"We can rationalize production if we finally tackle the absurd waste caused by the savage competition among French companies, if they establish among themselves, beginning with the national corporations, new cooperation and solidarity.

"We can have men and women workers capable of mastering the new techniques by undertaking a long-term training policy for young people and wage earners. This is why we proposed that an average of 10 percent of working time be devoted to training, without loss of wages.

"On this point I would add, the following expression is often used: 'Train workers for the year 2000.' That is obviously essential. We see this as an additional reason for making the sustained training effort that we propose, and a confirmation of the importance we attach to the school issue; the 30-year-old engineer of the year 2000 is today in secondary school.

"The other side of the coin is that the man or woman worker who is today past 40 will be starting the 21st century as a retiree. In many industrial sectors it is anticipated that the most profound changes in the conditions of production resulting from technological developments will be in full effect in 10 or 15 years. On what basis can one decide that these workers are no longer fit for work over this long period? Can they no longer do useful work? Can they not, without being required to entirely retrain, learn to use this or that new tool and profit from this or that improvement in their work, just as they have been doing throughout their career? To give a negative answer would be both inhumane and absurd! I told the Central Committee in January, and I repeat it today: 'There is room in France both for electronic engineers and working men and women who are less qualified but who all have know-how, will to work, and who can have access to upgrading, to a higher category.'

Anticommunism Aimed at the Entire Left

"The financial means exist to do all of this. There is money in France! There are the deductions taken by the private fortunes--and I remind that 110,000 families in France have a total fortune of 1.5 trillion francs, or one and a half times the state budget. There is the speculation. There is the escape of capital. There are the reserves of all kinds. There are so many diversions of funds to the detriment of development of production and employment, so much waste that can be reduced.

"These are the major issues before the country. It is their seriousness, their importance, their scale that prompted me to tell the Central Committee that 'we are at the hour of crucial choices.'"

Georges Marchais indicated that this "particularly harsh, tough" class confrontation is evident in all areas. Recalling the march on Versailles, he emphasized that "far from yielding to the Right, we should counter its offensive with energy and vigor, and strengthen the mobilization and involvement of all men and women committed to change in the school." He expressed regret over the attitude of the Catholic hierarchy in this affair, noting that "experience should teach the French church that it has nothing to gain by linking its fate with that of the owners, and that by marching arm in arm with the Right and the bosses, it risks promoting a renaissance of anticlericalism within the popular movement, a phenomenon against which we ourselves have never ceased to struggle."

He then expressed the hope, as our party has proposed to the CNAL [expansion unknown], "that as broad as possible an initiative can be decided on that will clearly demonstrate our people's desire for establishment of a big, modern and democratic public school. We respond with a total commitment on our part."

Georges Marchais went on to explain the role of anticommunism in the overall strategy of the right-wing forces against the Left.

He explained: "Already excessive, violent and hateful during the past few months, the campaign against us is currently taking a turn that borders on delirium. For example, how can we describe the monstrosity peddled recently that Manouchian and his comrades were turned over to the executioner by their own brothers, the communists? How can we describe the foolish allegation that Gaston Plissonier, a few days after our party's clear stand in regard to the Soviet intervention in Czechoslovakia in 1958--a stand that we have never changed, issued a 'secret' circular to communist cadres telling them, in substance: 'We have expressed disapproval, but don't believe it, it was for the gallery...'? What can we say about the indignity, contrary to all reality, constantly repeated by our adversaries to the effect that our party is not totally and in all circumstances independent in its judgments and its actions?

"Let no one be deceived. Though directed against our party, at the honor of its leaders, its members and its friends, this hate campaign does not affect only the communists. It is the entire Left that is the target. By trying to create a climate of defiance in our regard, it is the majority as a whole that the Right wants to divide, weaken, and thus tomorrow throw out of power.

"Rarely has a right-wing leader said it as clearly as Simone Veil in an interview that appeared on Thursday. I quote: 'The presence in France of a strong Communist Party and of a Socialist Party that is becoming more and more Marxist poses in a more acute way the question of alternation.' In other words: alternation, of course, if it is the Rally for the Republic replacing the French Democratic Union and vice versa; but if it is the Left, a stop to that! And it is this lady, bearing the colors of Chirac, Giscard, and Barre

who will no doubt be talking during the future election campaign about 'liberty' and 'democracy'!"

Responsibilities of Communists

In the last part of his address, Georges Marchais strongly emphasized the fact that "it is possible to succeed."

He said: "It is false to think that there can be no positive solution to the current economic problems. It is false to think that the commitments made in 1981 cannot be kept. It is false, totally false, to think that the Right and the owners have henceforth won the day."

In order to defeat them, we must above all not leave them a free field. "We must counterattack, take the initiative, unite in the struggles and thus go forward." This gives our party "special responsibilities" and must cause communists to pay "great attention to the life of each of our organizations, to the style of our work."

Georges Marchais stressed, in this connection, the necessity for living and active cells, for communists who are "fully aware of our policy," and for a party that is "stronger in influence and organization."

In conclusion, he emphasized the importance of the campaign for the coming European elections. He pointed out: "The struggle we will conduct to assure success of our party's slate will coincide with our action to block the expectations of the Right and assure success of the Left."

9920

CSO: 3519/247

PCE ASSESSES BASQUE, PARTY'S REGIONAL FUTURE

Madrid MUNDO OBRERO in Spanish 2-8 Mar 84 p 3

[Editorial]

[Text] The situation following last Sunday's elections in the Basque Country is not an occasion for rejoicing, the ugly and bitter dispute between the PNV [Basque Nationalist Party] and the PSOE [Spanish Socialist Workers Party], the infamous assassination of Enrique Casas which left its violent imprint on the electoral campaign, the no less hateful assassination of Eugenio Gutierrez, a member of the ETA military [Basque Fatherland and Liberty Group--military wing] 2 days later, the increased bipartisan splitting of the vote and the standstill, if not the retrogression of leftist parties including the PCE [Basque Communist Party] not being of a nature to leave major room for optimism.

It would be inelegant to attribute the unexpected rise of the PSOE to the emotional impact caused by the assassination of the socialist senator at the hands of ETA terrorists. But it would be more risky if one notes that in Guipuzcoa where the crime was committed, Herri Batasuna [Popular Unity], the choice of the ETA, received its highest vote.

What is indeed certain is that the entire electoral strategy practiced by the PSOE in the Basque Country--and willingly endorsed by the PNV--can be characterized as daring but not as innocent. Because of it, something successful was tried, namely, to fuel to the utmost the nationalist polemics which seek to the lowest depths of clumsiness and excesses in order to defuse the serious problems of the economic recession and of how to prevent industrial retooling from resulting in the large-scale elimination of jobs in the Basque Country too. In this way the PSOE and the PNV moved the electoral campaign to their own turf. Happenstance did the rest. We believe that this climate was not the most propitious one for the Basque people to calmly reflect on their basic problems or on solving them.

To be sure, there have also been positive elements not the least of which was the high level of voter participation. The extensive area of indecision and potential nonvoting projected by the public opinion polls alternated this time with the barriers of confusion, political indifference, and perhaps fear.

Despite the selfless and enthusiastic efforts of its activists, the Basque Communist Party failed to restore its presence in a special region where the PCE enjoys an unquestionable constituency and sympathy.

These second autonomous elections in the Basque Country confirm something that was known already: Two-thirds of the registered voters cast their ballots for the nationalist parties. The "pro-Spanish" forces secured the other third of the votes. But a different analysis of the balloting is in order: The bloc of voters claiming to be leftists was nearly equal to the bloc of voters claiming to follow the Center-Right. And this indicates that, as in the rest of Spain, there is a strong current of progressive opinion in the Basque Country which aspires to a far-reaching social renewal, both of the economic and of the political structures.

It is natural that in a community of such admitted personality struggling to assert its national identity and its autonomous institutions and furthermore in a community that has behind it centuries of common history with other national groups in Spain, this current should appear to be linked either with nationalism or with its denial.

The Basque communists are faced with the difficult but exalted task of continuing to work for the restoration of the unity of Basque Left within that self-governing Basque Country with renewed industrial capability and free from the terrorism and violence proclaimed by the electoral program of the Basque Communist Party.

2662

CSO: 3548/210

DEFENSE MINISTER THUNBORG DISCUSSES ARMED FORCES' FUTURE

Stockholm SVENSKA DAGBLADET in Swedish 7 Feb 84 p 2

[Article by Christina Jonsson: "Make The Defense Swedish!"]

[Text] Swedish defense should be produced in Sweden, urged Defense Minister Anders Thunborg at the Defense Department conference in Storlien. It would then be harder to knock out, he said, and less dependent on the exchange rate of the dollar.

With burning cheeks, the supreme commander and the generals received the defense minister's scolding: "If we compensate you now for the dollar, you'd damned well better be sure to come up with a good strong defense with the money you have."

Anders Thunborg peered resolutely over the edge of his glasses and the rostrum.

Now, the red faces in front of him did not express a feeling of shame but were the result of skiing and sauna bathing. The participants at the traditional People's and Defense Conference in Storlien held between Sunday and Wednesday devoted the mornings to the mountain and the afternoons to defense.

The supreme commander was there in balloon knickers and a checkered flannel shirt, comparing the sharp winds of the bare mountain with the Defense Department's incisive admonition: "Austerity is the order of the day!" But the defense minister aroused remarkable enthusiasm with his speech nonetheless.

Why were those responsible for our defense so satisfied with a speech replete with allusions to both differentiated conscription and termination of regiments? Well, probably because Thunborg described a tempting alternative.

There will indeed be fewer planes, boats and armored vehicles, things that are called platforms in defense circles. But there will be more robots, better battle command systems and new telemetric warfare technology. And it shall preferably be manufactured in Vaxjo, Sweden, rather than in Wisconsin in the United States.

Thunborg was impressive. The shrewd feature of his proposal is that we in Sweden would not have scaled-down versions of the systems used by the major powers. What is the Soviet Union training for, for example? They are training to destroy and knock out American systems. The reverse is also true.

With our own Swedish technical solutions, we would then have a system that would be harder to knock out. Also, the West's control is steadily increasing over its own advanced technology. It is uncertain whether in the future we in Sweden could get what we need there.

Expensive Compensation

Again, it makes a difference when you buy weapons at the rate of 1 dollar for 8.5 kronor or 1 dollar for 4.25 kronor. Presently, Sweden itself produces 75 to 80 percent of the war material it needs.

Sixty-five percent of the imported portion comes from the United States. If we can reduce this number, we will also be reducing the future likelihood of having to compensate defense for the dollar exchange rate and determining in violent discussions with the opposition how much such compensation should be.

And that is not all. The peace movement's accusations that the Defense Department is altogether too linked with the Pentagon and NATO will break down. Thus, Thunborg was able to satisfy the representatives of the Peace movement in Storlien, those who had come for discussions with the "military industrial complex" under the banner of Peace and Freedom.

Perhaps it also appealed to representatives of Defense to see a Social Democratic Defense minister venture to advocate investments for reduced personnel and more technology, a daring act in a party that, to put it simply, has historically trusted mostly in touch old salts on bikes.

But Thunborg was clear on the point: "I am totally convinced that in the long run the balance must be tipped in favor of advanced technology."

The defense minister's own enthusiasm was evident when he described his experiences in Lebanon in the summer of 1982. He had seen for himself how small Israeli robot planes equipped with television cameras relayed direct information to the battle command and how the Syrian fighter planes were largely wiped out with advanced forms of telemetric warfare. His recounting of it was as thrilling as a Biggles book. Air Force General Sven Olof Olson was on the point of getting up to go when Thunborg said disparagingly that the Draken aircraft was the opposite of all he was describing and that the Draken flew mostly to use up every possible flying hour.

But Olson stayed in his chair to hear the next two speakers: Gunnar Gustafsson of the Civil Defense Board and Lars Angstrom of the Swedish Federation of Peace and Arbitration.

Indignation and Applause

Angstrom stated that he saw no great difference between the neutrality of Finland and that of Sweden (in this he is in good company, for his view indeed parallels that of Foreign Minister Lennart Bodstrom). Some of the brass again became even redder on hearing this--this time from sheer indignation. But they politely applauded their prophet of doom and did not appear to be really fatigued until Berndt Jonsson, a specialist in the office of Maj Britt Theorin, sporting boyish bangs, grimly exhorted the audience not to forget the Third World, the poor, the weak, asking them to consider whose peace and freedom are at stake.

His questions did not get beyond the rhetorical stage though, for it was now time for the second part of the People's and Defense Conference that lures the "military mass media" complex to journey to Storlien (the first part is the morning stroll in the snow).

It is the social gathering. Expectations run high as the delegates return to their modest rooms to change for dinner. Some take delight in the small invitations decorated with crown and coat of arms bearing the message: "Come to a little bash at 6 o'clock."

This is something that is perhaps unique in Sweden--150 people are gathered, representing Defense, the Administration, the opposition, press, Church, the trade union movement and research science. And even the peace movement is here this time along with the organization of volunteers. This is when people make contacts and lobby for causes.

General Sven-Olof Olson can at last vent his anger at Thunborg's remark about the Draken.

"The Draken can win a war," the air force general thundered, deciding to hold his own press conference on the subject.

And so it goes--gravity and wit. The Center's Olof Johansson wonders if the investment in technology at Defense will be reflected in the Social Democrats' coming research funding bill. Commander Sven Carlsson, spokesman on submarine affairs, prefers to talk about his coming transfer to the mine sweeper Carlskrona. The dance orchestra strikes up, and Bjorn Berg of DAGENS NYHETER sits on the sofa sketching frantically. He is to make news sketches about all the goings on here that normally are not reported about the People's and Defense Conference.

February darkness has long since blotted out Blahammar's sharp profile, as Defense, the Church, Trade Union, Administration, Opposition and all the other groups each gather privately for a wrap-up confab about internal matters.

The following morning, they reconvene on the ski track and in the conference rooms. Anders Thunborg is taking a plan back to Stockholm together with Defense's agreement with the opposition. He is once again praised: "An excellent speech."

They will listen politely for several hours with cheeks burning while Gertrude Anlung, the representative from "Journalists for Peace," will accuse them of never stopping to consider the fact that a single JAS airplane could pay for 3,000 day-care centers.

9992

CSO: 3650/125

PAPER DOUBTS FEASIBILITY OF MINISTER'S SAVING PROPOSALS

Stockholm SVENSKA DAGBLADET in Swedish 7 Feb 84 p 2

[Editorial: "Thunborg on His Own"]

[Text] The foreign minister's speech at the People and Defense Conference in Storlien demonstrates that the chances are still good for a constructive dialogue on defense questions. As a prelude to the next defense analysis and defense resolution, Anders Thunborg stresses the importance of investing in quality and in the organization of defense. By streamlining the peace-keeping forces, room can be made for new and advanced technology.

The defense minister is pointing out a specific way. By shortening the conscription period, money could be saved. In this way, for instance, a restructuring of the military or peace-keeping forces could take place. It will be primarily the worst equipped units in the armed forces that will be terminated.

In appearance, the defense minister is proposing a method of clearing the logjam that exists at this very time in defense policy: the disagreement on appropriations for the coming year. Actually, however, this is not the case. The savings proposal advocated by Thunborg will not have any effects during the present 5-year period. Not until the next defense resolution can a shorter conscription period and the subsequent changes in the armed forces save money at Defense.

As a matter of fact, the foreign minister's proposal illustrates the profound tragedy in the discussion now being conducted on the defense appropriation.

If the nation's politicians really respected the genuine farsightedness that must accompany the administration of defense--and thus not reduce the justified allocation of funds in panic--it would be possible to restructure defense in the long run. In this way, it would be economically possible to maintain a strong defense.

From one year to the next, the decision has been made to reduce our fighter planes by a third. Naval planning has been converted from defense against invasion to defense in cases of incidents. The Viggen is being used without further developing the base and battle command system currently needed.

We are in danger of having a defense structure that is determined by financial rather than security considerations.

The austerities are limiting the prospects for our future defense. Much that is good in what the defense minister proposes is thus in danger of being lost. Is the sum of some 500 million kronor per year through 1987, now the subject of disagreement, really worth running this risk?

9992

CS0: 3650/125

GOVERNMENT AGREES TO COMPENSATE FOR DOLLAR IN DEFENSE BUDGET

Stockholm DAGENS NYHETER in Swedish 17 Feb 84 p 8

[Article by Sven Svensson: "1.5 Billion For Defense: Compensation For The Dollar"]

[Text] Defense is to receive 1.5 billion more than 1987 as compensation for the high dollar exchange rate, and foreign aid will be hiked by 300 million kronor. These figures were set by the administration Thursday in its cabinet session. It is not yet clear, however, from what sources the funds will come since the setback in the administration's proposal to raise the gasoline tax.

It is believed that the government will submit two different bills, and that Finance Minister Kjell-Olaf Feldt will put the two proposals into one common legislative package in order to ensure that the spending increases are matched by revenue increases.

The Finance Department is looking at several funding alternatives that might be passed in Parliament. The funding proposal must be ready by Wednesday of next week, when the Social Democratic legislative committees are to make a decision.

The funding for increased foreign aid is especially problematic. The administration would like to find some way to force the cooperation of the center parties: the Liberals and the Centrists. These two parties have proposed a 450 million kronor increase in foreign aid to meet the 1 percent GNP target but want to finance this increase with cuts in other areas.

Foreign Minister Lennart Bodstrom is to visit Hungary next week but will hurry home on Wednesday to take part in the debate on foreign-aid funding.

The Liberals Decide

The gasoline tax increase to finance increased foreign aid is complicated by the fact that Defense Minister Anders Thunborg still hopes that it will be possible in the parliamentary debates to reach an agreement with the non-socialist opposition on increased defense appropriations.

An agreement would require that the administration increase its defense proposal and that the non-socialist parties go along with finding the increase by raising the gasoline tax.

Without an agreement, it would be the Left Party Communists who in effect decide whether Sweden will terminate or retain the three threatened Draken units.

Welfare Payments

Without a broad agreement, the Social Democrats will have to assume the responsibility for terminating several military units. It may be difficult for the administration to get a majority together for such a proposal. The Social Democrats from districts impacted by a shutdown may find it difficult to vote for the administration proposal.

The administration must round up 500 million a year for defense by making savings elsewhere; 300 million is deemed sufficient for aid to developing countries.

The government could probably save hundreds of millions in the municipal sector.

Another savings would result from recovering benefit payments from divorced fathers. Approximately 250,000 children now receive benefits because their fathers do not pay child support.

The Liberal and Center parties calculate that almost 300 million kronor would be saved annually by increasing the statute of limitations for recovery to 5 years, up from the present 2-year limit. The administration thinks that this would possibly take in 50 to 100 million kronor.

State Health Insurance expenditures for medicine have greatly increased. The qualifying amount is now 20 kronor for any expense for medicine, with a 50-kronor maximum.

The Welfare Board and the National Insurance Administration have been asked by the government to come up with a proposal no later than 1 April 1984 to reduce medical costs by at least 100 million kronor. This would require an increase in qualifying charges of 5 to 10 kronor.

Another possible savings measure seized upon by the administration in countering the opposition's bills is an increase in the physician fee, now 40 kronor per consultation at public clinics and 50 kronor per visit at the office of a doctor in private practice. The Center Party has proposed an increase of 10 kronor, which would yield revenues of a couple of million kronor annually.

9992

CSO: 3650/125

NAVAL OFFICER: SOVIET BUILDUP ON KOLA PRESENTS CHALLENGE

Stockholm SVENSKA DAGBLADET in Swedish 21 Feb 84 p 18

[Article by Lars Christiansson]

[Text] "It is hard to see how the Nordic countries as a whole could avoid being drawn into a major conflict. And it is probable that they would be drawn into it at an early stage.

"Such a development would obviously have consequences for us even if we stayed out of such a war. This is not to say that the danger of war has increased. What has been said so many times before can be said again: there are strong forces restraining the start of a major conflict."

So said Under Secretary of State Per Borg of the Ministry of Defense during a debate in Stockholm on Monday evening concerning the situation in Sweden's naval defenses.

Per Borg presented that analysis against the background of the Soviet strategic buildup on the Kola Peninsula, the increased importance of the Murmansk base, and the steps taken by NATO to cope with the problem.

He also drew attention to the role that nuclear-armed submarines have come to play in the strategic nuclear balance.

"This places greater demands on our Armed Forces even in peacetime."

On that point, Per Borg met with agreement on the part of his fellow debaters: Defense Staff Chief Bror Stefenson, Carl Bildt (Conservative Party), Lennart Brunander (Center Party), and Hans Lindblad (Liberal Party).

Dramatic Increase

Carl Bildt said: "There has been too little talk about this strategic situation, and too few conclusions have been drawn. Our region's strategic importance to the big powers has increased dramatically, and this means that greater demands are being placed on our defenses against invasion, since an aggressor is prepared to engage larger forces than we previously thought."

Lennart Brunander, a member of Parliament for the Center Party, said: "We are no longer a flank area in the north. We may be drawn into a conflict at a much earlier stage."

The participants in the debate emphasized that the repeated submarine intrusions must also be viewed from that perspective.

Differences of opinion arose, however, on the question of whether our current defense forces can accomplish their mission and on the subject of their financial situation.

"No Crisis"

Defense Staff Chief Bror Stefenson commented on the situation as follows:

"Our dilemma is that our country is experiencing a crisis both economically and from the standpoint of security policy. In a sense, the entire defense establishment is in a crisis."

Under Secretary of State Per Borg protested.

He said: "The Armed Forces are not in a crisis: on the contrary, they can accomplish their mission."

11798

CSO: 3650/136

CONTINUOUS HUNTING FOR SUBMARINES WEAKENS ARMED FORCES

Stockholm 7 DAGAR in Swedish 24 Feb 84 pp 6-7

[Article by Claes Lofgren]

[Text] Karlskrona--The hunt for foreign submarines in Swedish waters is creating problems for the Armed Forces--problems which the intruding nation may be interested in causing. For one thing, it interferes with Swedish defense planning.

It took 22 depth charges and a minor mine explosion to bring the national press back to Karlskrona. All the hotels were suddenly all booked up. The desk clerk at the Savoy volunteered to sleep in the hotel's gym, just as he had when the U137 ran aground. With the mass media on the scene, the submarine search units were complete.

Reporters could see rather quickly that there were new elements in the submarine hunt. The object that had set off a magnetic coil between Tjurk and Sturk Islands after midnight on Friday 10 February (according to the BLEKINGE LANS TIDNING) was not necessarily a minisub. It could have been frogmen, one-man subs, or simply one or more underwater mopeds, according to the navy.

The navy may have known more about the object or objects being hunted than was apparent from the sketchy press communiques. But comments by Defense Staff Chief Bror Stefenson, along with other indications, hint that the opposite is more likely. According to the vice admiral, there was little in the situation to indicate that the navy's search would be successful.

With almost melancholy frankness, Stefenson admitted that Sweden is still in the process of building up its antisubmarine capability. New vessels, warning devices, and reconnaissance equipment are needed. But the biggest weakness today, according to the chief of the Defense Staff, is not the shortage of materiel. Instead, it is the lack of knowledge concerning the opponent's intentions and technical capability.

His statement was in glaring contrast to the very confident assurances given by the navy earlier that sooner or later, we will bring what has now been dubbed "foreign underwater activity" to the surface. It is obvious that the

nation or nations intruding into Sweden's most secret archipelago also take a different view.

Assuming that the navy is drawing the right conclusions from its hydrophone echoes and that the magnetic coils are effective "burglar alarms," the trespassing in Karlskrona is an act of incomprehensible insolence. In an area measuring 10 by 3 nautical miles and protected by submarine nets, armed sentries, and submarines, foreign underwater activity is going on--in full view of Governor Camilla Odhnoff and Karlskrona's 60,000 inhabitants.

Well-Guarded Area

The area is guarded by three patrol boats, two minesweepers, two Vertol helicopters, the submarine recovery vessel "Belos," maritime patrol planes, picket boats, divers, and at least two submarines. The absurdness of the situation is revealed in a new element in the search: pursuit on land as well.

At least 400 conscripts from KA-2 [Karlskrona Coast Artillery Regiment] in Karlskrona, P-2 [Skane Dragoon Regiment] in Hassleholm, I-11 [Kronoberg Regiment] in Vaxjo, and P-6 [North Skane Regiment] in Kristianstad have been patrolling the beaches around the barriers. In Karlskrona itself, the security police [SAPO] are looking for possible spy accomplices. Police Superintendent Jan Zelmerlof of SAPO confirms that in contrast to earlier submarine hunts, many tips have been received from the public.

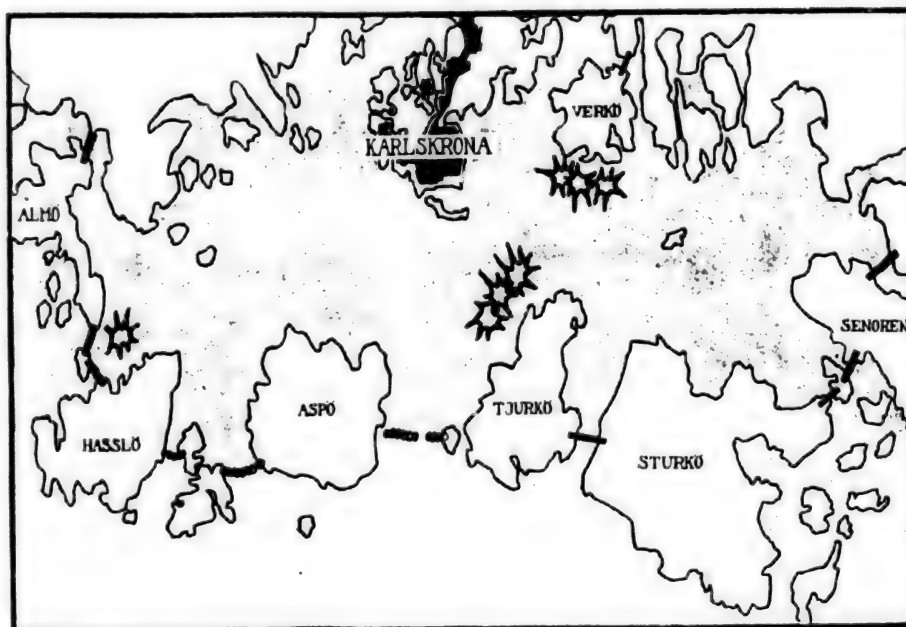
Either the boundaries between reality and science fiction have begun to disappear in the general excitement of the submarine hunt or SAPO's investigation in Karlskrona reflects a painful new realization that spy accomplices actually do exist in the real world. But the reason for SAPO's search of the building at 9 Arklimastare Street in downtown Karlskrona is not clear.

Perhaps the Defense Radio Institute located a suspected transmitter in the building. In addition to its regular tenants, the building has about 10 rooms for rent. They are rented chiefly to the navy and the Ericsson firm in Karlskrona. Ulf and Inger Clarstedt, who live next to one of the rooms, report interference in their TV set.

The interference began at the same time as last September's submarine hunt--and stopped when that hunt ended. On Tuesday 7 February--48 hours before the first indication--it happened again, and this time there was more than a ruined TV picture: unmodulated voices could also be heard in the bathroom and through the ventilating fan in the kitchen.

Naturally, it is easy to poke fun at the evidence. If there was a spy, how could he dare run such an obvious risk by transmitting radio messages from a building in downtown Karlskrona while the submarine hunt was underway?

But the Clarstedts are not alleging anything--they are simply saying what they heard. Their statements are confirmed by a neighbor. One of the rooms in question is situated between the neighbor and the Clarstedt apartment. The interference stopped on Friday 10 February--immediately after the first submarine



Immediately north of Hassl Island (to the left on the map), a 30-kilogram charge was detonated by wire at 1515 hours on Tuesday 14 February. The incident occurred after military personnel--presumably on the Alm Island Bridge--had seen something moving just below the surface of the water. At 1549 hours, in response to a light signal from a helicopter, two patrol boats dropped 14 100-kilogram depth charges in a pattern just north of Tjurk Island, about 4 or 5 nautical miles from the site of the first detonation. At 11:14 that night, the next round of pattern bombing occurred--this time with eight 100-kilogram depth charges. As can be seen from the map, the area inside the chain of islands is closed off partly by natural obstacles in the form of land and bridges and partly by submarine nets, soldiers, and mines. Automobiles on their way to the islands are searched by sentries. The fishing fleet on Karlskrona's islands is allowed to go out to sea only with a naval escort.

Key:

The ending "o" in place names = island:
for example, "Hasslo" = "Hassl Island."

alert. On Saturday the 11th, SAPO carried out its search. The owner of the property and Clarstedt's neighbor were questioned.

No Empty Threat

According to SAPO, no particular individuals are under suspicion. No preliminary investigation has been started. Perhaps the incident simply reflected an overreaction due to the uncertainty created by the submarine hunt. The absolutely crucial question is whether some sort of foreign underwater activity is indeed going on in Karlskrona.

Quite apart from the question of whether such activity is underway or not, it can be stated that the depth charges dropped on Tuesday 14 February were dropped quickly and--apparently--without taking time to consider any possible political viewpoints. Firepower equivalent to a total of 2.3 tons of TNT left no doubt as to the intention: the charges were intended to damage whatever was being pursued.

So even if the navy bombed nothing more than schools of herring, old wreckage, or electronic ghost images, it is obvious that last year's new rules for dealing with incidents are more than empty rhetorical threats. And quite apart from the question of what the navy is really chasing, these hunts are creating big problems from both the short-term and the long-term standpoint.

From the short-term standpoint, the basic training of the conscripts involved in the hunt is being impaired. Very few do their military service just to learn antisubmarine warfare. But instead of learning what is in the curriculum, too many conscripts are having to devote themselves purely to guard duty--week after week. Officers are exceeding to an ever greater extent the working hours allowed by regulations--their mountain of overtime is becoming less and less legal. The submarine hunts are costing large sums. A single hour of flying time in a Vertol costs 8,000 kronor.

Creating Confusion

If the money appropriated for extraordinary incident preparedness runs out, the Armed Forces will have to cut back somewhere else. But over the longer term, considerably more serious problems will pile up. If the navy fails time after time to force up real or imagined underwater vessels, it is quite likely that the Swedish Armed Forces will lose their credibility in the eyes of the public here at home and in the world around us as well.

That may in fact be one of the most important aims of the nation behind the intruding submarines: to create confusion in public opinion and disrupt Swedish defense planning. Swedish politicians must feel uncertain: what, in fact, is the mission of the Swedish Armed Forces supposed to be?

Last Monday, the Association of Swedish Shipping and Swedish Naval Defense sponsored a panel debate at the Salen Building in Stockholm. The topic was "Naval Defense in Crisis." Bald pates glistened in competition with a uniform here and there in the assembly. It is true that Per Borg, under secretary of

state in the Ministry of Defense, said there was no crisis in defense, but Borg admitted at the same time that a reevaluation of the mission of Sweden's Armed Forces was underway.

The old idea that an invasion would be preceded by adequate early warning--providing enough breathing room in which to mobilize the conscript army--is no longer a sacred truth. The risk of a surprise attack in the opening phase of a conflict has increased. The submarine intrusions are only one symptom among many--and perhaps more important--symptoms of the new strategic conditions in the Nordic region.

According to the old idea, dogged area-wide defense was taken as a matter of course. The partially new situation, with its increased risk of a surprise attack, presents other demands. Increased incident preparedness with a stronger naval defense using more high technology is a necessity, according to Hans Lindblad.

The almost stupefying unity in the panel discussion among the various party politicians and military obscured conflicts to come, an example being the one between cost-cutting politicians and the Armed Forces on the one hand and, on the other, the service branches, which are being hard pressed by debates over priorities. The unity would probably have been less striking if the association has invited a representative of the army.

It is also probable that unity would not have won any triumphs if the Eastern bloc attaches who were present had been allowed to state their opinion. But the friends of shipping would surely have given a lot to learn their inmost thoughts.

11798

CSO: 3650/136

DEFENSE RESEARCH AGENCY DEVELOPS NEW SIGNALS MONITORING SYSTEM

Stockholm SVENSKA DAGBLADET in Swedish 19 Feb 84 p 6

[Article by Sune Olofsson]

[Text] Linkoping--Researchers at the FOA (Defense Research Institute) in Linkoping have developed a signals monitoring system that will revolutionize Sweden's radio intelligence and its possibilities for intercepting and disrupting military intelligence.

This means that Sweden is taking a big step forward in the area of electronic warfare. The system, which is called a compressive receiver, can intercept and disrupt high-speed and frequency-hopping transmissions. Until now, only the U.S. superpower has possessed the compressive receiver technology, and it has refused to sell it to foreign countries.

Within 5 or 10 years, the modern army, air force, and naval units of other nations will have fixed and mobile frequency-hopping transmitting stations.

Disruption of Transmissions

The primary purpose of signals monitoring is to gather information concerning an enemy's plans--for example, troop movements and troop strength--disrupt transmissions between staff and units, and knock out the opponent's command and communication functions at various levels.

The signals monitoring systems currently existing in the world have some difficulty in intercepting high-speed transmissions and are absolutely incapable of coping with frequency-hopping transmissions, which are the latest discovery in electronic warfare.

But the FOA's Section 3 in Linkoping--the section for signals monitoring and countermeasure technology--has succeeded in producing the prototype of a compressive receiver whose computer program is adapted to Swedish military conditions and requirements.

This contribution by military research will be of great importance to Sweden's ability to procure intelligence at an early stage. Signals monitoring has been considered important for many years and has been given priority in the Swedish Armed Forces.

Department head Hans Bergdahl, who is one of the researchers behind the new prototype, says: "Sweden is way out in front in signals monitoring. All you have to do is look at a globe to understand why the Armed Forces have assigned priority to signals monitoring. Sweden has an orchestra seat."

The other members of the team are senior researcher P.G. Persson and researcher Bo Karlsson. The section is headed by chief engineer Sune Johansson.

In older transmitting systems, signals are sent over a single channel and can easily be intercepted with today's technology. High-speed transmitting systems came into existence about 10 years ago and caused big headaches for military researchers.

A high-speed transmission takes only about 1 second, also using one channel, and it can contain a great deal of information that has been compressed following a certain pattern. To anyone hearing a high-speed transmission, it sounds like ordinary radio static. The signal monitor must know when, and on which channel, the transmission will be sent; otherwise, it is generally impossible to intercept it.

Swedish signals monitoring--chiefly that done by the Defense Radio Institute--has succeeded with some difficulty in intercepting high-speed transmissions, which are also used by espionage centers to communicate with their agents abroad.

What is unique about the latest discovery--frequency-hopping transmissions, which were invented by the U.S. military industry in 1977--is that the signal jumps across an entire range of frequencies at irregular intervals and at random and can choose between 920 channels. This breaks up the signal and its message and makes signals monitoring even more difficult.

Short Burst

The future frequency-hopping transmitting systems for ground units will provide signals that change frequencies about 250 or 500 times per second. The components of the split-up message will therefore remain on a given frequency for a very short time.

The real supersystems are the reconnaissance satellites, whose signals switch frequencies up to 18,000 times per second. At present, it is completely impossible for researchers to crack those systems.

Maj Bengt Wigbrant of the Defense Staff in Stockholm, who is an expert on electronic warfare, says: "To get at a frequency-hopping signal, the direction finder must be able to stretch over the entire frequency range at the exact same fraction of a second. That is what the FOA's new compressive receiver can do.

"The next step in development will be to find out the location from which the enemy is transmitting. This brings us into the field of high-speed direction finding, an area in which we have a great interest."

Exactly how far the FOA has gotten in that area is a well-guarded secret. For understandable reasons, neither the FOA nor the Defense Staff wants to say how fast the new receiver is or exactly what its possibilities are.

Sune Johansson says: "We can only say that we are happy to have mastered a coming and necessary electronic warfare technology."

SVENSKA DAGBLADET can report that there was a great deal of consultation and discussion at various levels of the Armed Forces when SVENSKA DAGBLADET asked to be allowed to enter the FOA and get acquainted with the new location finding system. Swedish signals monitoring has always been surrounded by the greatest secrecy.

Israel Has System

During the so-called Yom Kippur War between Israel and the Arab states in 1973, Egypt in particular was able to inflict heavy losses on Israel. Egypt's capability for electronic warfare was better.

After the war, Israel invested large sums in setting up a frequency-hopping transmitting system to safeguard Israeli liaison. Today it has an operating system known as Shamir that was used very successfully during Israel's cleanup operations in the Bekaa Valley in 1982.

The United States is currently building 200,000 frequency-hopping transmitting stations for its army. And the Swedish Army's future troop radio system known as 8,000 will use frequency hopping. The system will begin operating in the second half of the 1980's.

Military experts consider it improbable that the Warsaw Pact currently has frequency-hopping transmitters or the ability to intercept and disrupt frequency-hopping signals.

Confusion and Chaos Most Important

Linköping--Electronic warfare is usually described by its representatives as a "nice gentlemanly war." No blood is spilled, and no human lives are wasted.

But all the same, electronic warfare is a technology that both limits and increases the effect of weapons. Electronic warfare is a highly secret area, since the advantages it offers are based on the element of surprise.

The big powers invest enormous annual sums in electronic warfare, which is usually divided into five areas: signals monitoring, false signals, electronic countermeasures, signal-seeking weapons, and electronic counter-countermeasures. Electronic warfare does not occur only in wartime--it has an essential role to play in peacetime as well.

Swedish signals monitoring in peacetime is extremely advanced and successful. The Defense Radio Institute (FRA) receives over 80 percent of the funds allocated to the military intelligence service, or about 180 million kronor. The

FRA is growing in importance every year: it is the most important source of intelligence for the OB [supreme commander of the Swedish Armed Forces].

Exercises Detected

The FRA's signals monitoring stations along Sweden's coast hear and intercept military signals from our neighboring countries. Political changes, military exercises and operations, and tests with new weapons can be discovered by monitoring and processing signals of various kinds.

New Reconnaissance Ship

The FRA also uses two converted Caravelles which fly at a very high altitude to eavesdrop far inside the territories of neighboring countries. The FRA's very modern signals monitoring ship "Orion" was launched recently and is now being outfitted with technical equipment. It will operate chiefly in the Baltic Sea.

The FRA's activity can be divided into three functions:

1. Monitoring and interpreting radio traffic by foreign embassies.
2. Monitoring and assessing military communication networks of other countries.
3. Technical signals monitoring that provides important data for the intelligence sections in the FOA and FMV (Defense Materiel Administration).

The FOA's most important job is to keep up with military technical developments in the world. To do that job, it has an intelligence unit of its own, headed by Commodore Bengt Odin, that the public is unaware of. That unit, located at FOA headquarters on Linne Street in Stockholm, takes its orders directly from the OB.

The unit compiles photographs taken by the Viggen reconnaissance plane of foreign aircraft and vessels in the Baltic Sea area.

Paper Deceived Radar

Electronic warfare began in the early 1900's. When radar monitoring technology came into use, countermeasures were discovered. By dropping metal-coated strips of paper, the British were able to deceive radar systems and prevent the downing of a large number of their aircraft in World War II.

A type of interference was used by the Finns when they retook Vyborg, which had been recaptured by the Russians during the Winter War of 1939-1940. When the Russian troops evacuated the city, they left behind mines which they intended to detonate using voice signals transmitted over radio waves.

But the Finns found a way.

By transmitting the Sakkijarven Polka continuously, the Finns blocked the Russian voice signals long enough for the batteries in the mines to go dead.

The importance of electronic warfare in modern times can be seen from Israel's successes in the Bekaa Valley in 1982. Within a limited area and with few losses of its own, Israel destroyed millions of kronor worth of the opponent's aircraft, radar stations, and missile positions. Its success was due in large part to electronic warfare.

The Israelis sent small remotely piloted reconnaissance planes over the Bekaa Valley. The planes had a range of 60 miles. They were equipped with TV cameras whose video signals were stored on on-board tape recorders and relayed to their central monitoring station, which then determined the positions of Syria's anti-aircraft units and aircraft.

Not only that, but the Israelis also directed false targets toward Syrian anti-aircraft positions to deceive the important radar fire control stations into transmitting and thereby emitting signals. That in turn led to attacks with so-called signal-seeking missiles, which knocked out quite a number of Syrian radar stations.

By sending false messages and orders over Syria's command channels, Israel caused confusion and chaos.

And that is the main purpose of electronic warfare.

11798

CSO: 3650/136

HANSENNE ON SUCCESSES, PROBLEMS IN EMPLOYMENT POLICY

Brussels L'EVENEMENT in French Feb 84 pp 24-27

[Interview with Michel Hansenne by Jean-Claude Ricquier; date and place not specified]

[Text] The striking features about Michel Hansenne's career are both its rapidity and its discretion. And the fact that it is a lasting career. Some people spend an interminable amount of time slowly creeping up the ladder of power, and are exhausted when they finally reach the top, just when it is time for them to retire. Others either don't live up to their promise, are hurt by the political or economic situation, or are abandoned by their "friends." They burn out like meteors. But Michel Hansenne has never been out of the government since he first entered it, nearly 5 years ago. His ministerial career, which started at the end of the "Tindemans era," seems to be linked to the career of the present prime minister. He has been a member of all the governments headed by Wilfried Martens, not to mention the one headed by Marc Eyskens. Today he holds the most thankless spot in the cabinet: employment and labor. But it doesn't seem to bother this man, who appears to be without vanity, who prefers the essential to the peripheral, and who only seems to think of his political future with an amused detachment.

Question: Mr Hansenne, what was the employment situation in Belgium when you came to head that ministry 2 years ago, and how do you view the situation today?

Answer: The job situation in our country 2 years ago was catastrophic, since we were just emerging from our worst year in terms of increasing unemployment. In December 1981, our records for that year showed that the rate of increase of unemployment had never been so high since the end of World War II. To make a comparison with the immediately preceding years, in 1979 we had an absolute increase that amounted to an added 5,000 people out of work, in 1980, to 71,000 added people out of work,

and in 1981 to 75,000. This means that in just 1 year we had an increase in unemployment that was equivalent to almost the total unemployment figure in our country about 10 years ago! That situation could obviously not be allowed to continue. In 1982 we managed to turn this trend around, and the increase in unemployment started to decline, to a level of 57,000 units. But for 1983, on the basis of estimates made in November 1983, we reached a figure lower than in the month of February. And if December still remains a "good" month, if I can put it that way, we will have managed to limit the increase in unemployment to 20,000 units. So we aren't far from a 75 percent reduction in relation to 1981.

We have thus succeeded in stabilizing the volume of employment. The added unemployment is due to the entry of young people in the labor market. And we can't forget that every year a larger number of young people comes into the labor market, which will further complicate things during this time of crisis.

Question: To what do you attribute the success, or at least the relative success, of your policy?

Answer: We owe to all the wage restraint measures we have introduced the fact that we have now managed to avoid a large part of the job losses we used to have in the past. This stabilization in the volume of employment is the result of our policy to decrease the number of hours worked, and of compensatory hiring. This is the essential point: it is the result of the sacrifices we asked the workers to make in 1983 and which we will again ask of them in 1984.

Question: In your opinion, is that the principal axis of your policy, or is it part-time work?

Answer: Part-time work is only one completely secondary element of my policy. But we must certainly make a distinction between what is important in quantitative terms and what is important in qualitative terms. In the quantitative aspect, the essential is obviously everything brought about by job sharing, as a result of the wage restraint policy. In terms of the number of jobs created, this is the system which we found to be by far the most economically workable. In qualitative terms, what seems most important to us is the program which we describe as a "release of initiative." That is, it is our incentive to create jobs of an economic nature. Here it isn't just a matter of getting people back to work, but rather of creating new jobs.

Question: On the subject of part-time work, we have to admit that we don't see much actually taking place in reality. Might this be because the public is poorly informed about this program, or might it be that the formula is very hard to put into practice?

Answer: Let me say two things about that. Since we have made getting part-time work easier, by changing social security and unemployment regulations, we are finding that applications for this type of work are increasing in number. This is particularly so since we have allowed full-time workers who are unemployed to take part-time jobs, while guaranteeing them their rights to full-time unemployment compensation. So there is a larger number of applicants for part-time work; but I am not at all convinced that there is a consensus in many businesses in favor of this type of work.

Question: Why?

Answer: First of all, because it costs more. And then because organizing the working schedule gets more complicated.

Question: But part-time work does not affect just one uniform category of workers.

Answer: True, it involves three categories of workers. First of all, people who have always worked part time. These workers used to be very poorly treated. If they happened to lose their job, they were only entitled to unemployment compensation for 75 days. So in this category we found essentially just those workers who were forced to work part time, for the simple reason that they hadn't been able to find anything else. But now these workers are entitled to unemployment compensation for a period of time equivalent to the length of time they have worked, with a 5-year maximum. This is a considerable improvement in their status. The second category is full-time workers who decide to switch to part-time work. These workers are now treated exactly as if they were working full time, that is, they are entitled to unemployment benefits without any time limitation. Their payments are obviously less because they worked part time. Then, in the third category, which I think is the most significant one, are full-time workers who take a part-time job: from now on these workers will remain full-time job seekers but they will be able to combine a salary with part of their unemployment benefits. It is obviously in this category that the demand for part-time work is the strongest, because it causes no deterioration

in their status. Now, after saying all that, I want to add that, in my opinion, part-time work is not at all a miracle solution for unemployment. I view it rather in terms of the quality of life. I believe that this formula may develop if it suits people's needs, and in my opinion, these needs vary and will continue to vary during different periods of their lives. One person or another may decide to take a part-time job for family reasons, in order to acquire additional training or education, etc., but still without actually giving up the idea or hope of one day working full time again. This option will require flexibility on the part of business, for it will only produce good results if it isn't presented in terms of all or nothing.

Question: If the private sector gives part-time work a cool reception, wouldn't it be possible to use it on a massive scale in the public sector?

Answer: In terms of the public sector, that is what is happening right now. My colleagues in the civil service, in national education, and in pensions have changed a great number of regulations so that part-time work can be chosen much more often by civil servants. But I believe that we would be more successful in this area if replacements were automatic. If in fact in a particular agency 10 or 20 workers request part-time work, there is a risk that the work may not get done. So we should be able to proceed with more accelerated automatic hiring. If the part-time work is being sought for family reasons or for personal convenience, that is, if it is only for one period in a person's life, we should be able to hire substitute workers on a temporary basis. Then there would be no slowdown in the work done within the agency, since the total volume of work would be taken care of.

Question: Are there other countries where this policy of job-sharing has worked, or are you an innovator in this area?

Answer: In this field, different countries have very different concepts. There is part-time work, which is one very particular formula, but which is not an overall solution. For part-time work, I feel that the legislator's role should be limited to making the decision of the individual worker who is interested in this option easier. But part-time work should not be confused with job-sharing. Job-sharing means that in a time of crisis, a particular worker will agree to give part of his job to someone else. This is sharing the job, or the work, meaning of course, also sharing the income, and therefore it entails a reduction in income. During the 1983-84 period, we began the

wage restraint, operation, combined with a decrease in the number of hours worked, arranged through collective bargaining, and with compensatory hiring. In this respect we are out in front in comparison with countries such as the Netherlands or Italy, which have done comparable things, but which haven't gone as far as we have. So in this area we are ahead of the entire European Community. Then, the third aspect of our policy is what I would call the "reorganization" of the time spent at work. This means a real decrease in the amount of time worked without a negative impact on the worker's income. Practically speaking, there are really only two ways to make this difficult combination work. The first consists of trying to dissociate a person's work from that of machines. In this regard, you are familiar with the UCL's [Catholic University of Louvain] Palasthy models. The second way consists of reducing the working hours, without having too much of an impact on income, by means of what I call the "recycling of unemployment compensation." We have to remember that today we are spending 118 billion on unemployment compensation a year. Couldn't we use this money more effectively? I think so. That is why I think that a business which hires an unemployed worker should pay him only an income supplement, that is, the difference between the amount of his unemployment compensation and the amount of a normal salary. Along these same lines I proposed, though I couldn't manage to persuade my colleagues in the government, a system for sharing both unemployment benefits and income earned from working. Let me explain this: let's take a worker who leaves a full-time job to take a part-time job. An unemployed person is then hired part-time so that the same amount of work will be done. Given this assumption, we could very well guarantee to each of these two workers, in addition to their part-time salary, a bonus amounting to half of the unemployment compensation of the person who is hired. I think a system like that would be one way, among others, of making a more intelligent use of the money we are now spending on unemployment compensation.

Question: So your policy is to act so that unemployment compensation will be, to the extent possible, a sort of income that will still allow unemployed people to work?

Answer: Yes, that's right. Let's take the case of a business that might want to use a Palasthy model calling for a reduction in the work schedule to 32 hours a week, down from a 38-hour workweek. Who will pay the difference? My answer is: the business will pay part of it, since it will increase its productivity through an increase in the use of materials, and thus of the capital invested. And we will compensate for part of the

difference in income by means of unemployment benefits corresponding to the difference remaining between the former salary and the new salary. So this is our policy: rather than pay people to do nothing, let's pay them to do something. In other words, the 118 billion in unemployment compensation should be used not only to give people a guaranteed income, thus maintaining consumption, but also to create new jobs.

Question: What is the reaction of the minister of employment to unemployment among young people? Don't you think that these tens of thousands of young people who go directly from school to unemployment are on the way to becoming a generation totally different from past generations?

Answer: A few years ago I was invited by the U.S. government to study in the United States. During my stay there I visited Oakland, the breeding ground of the Black Panthers. There I saw a third generation of underemployed people. I wondered what the mental universe of these young people might be, people whose fathers and grandfathers had never worked. For in the beehive of activity in the United States, how could there coexist a social group that has been unemployed for about 100 years, along the side of a productive society? This should tell you that I am terribly concerned about so many of our young people who have very little likelihood of finding a job. It is essential to devise a policy combining employment and training. Out of a group of approximately 150,000 unemployed people under 25 years of age, there are 100,000 whose education is limited to a primary or lower secondary level. This means that they have practically no job skills. For that reason, last July we got a law on industrial apprenticeship passed. This law enables us to put young people to work part time in business, so they can continue their education. In my opinion, it is essential for us to continue doing this. If not, we would be condemning part of our young people to permanent unemployment.

Question: Don't you think that a good many unemployed people might be willing to give up their unemployment benefits if their health and disability insurance continued to be provided? I am thinking in particular of married women and/or mothers who are unemployed.

Answer: That possibility already exists right now. An unemployed man or woman may request to no longer be paid his or her unemployment compensation, while still remaining covered by social security. Furthermore, I will tell you that I introduced this provision in our legislation after I met the well-known

"lawyer's wife" whom everyone talks about. You know the person I mean: the elegant lady who drives about in her luxury car and who is ostracized by everyone. She isn't a merry widow, but a wealthy unemployed woman. Well, that lady is by no means a creature of legend; she actually exists, and I have had an opportunity to talk with her. She told me: "I have a husband who earns a good living and I could very well do without my unemployment compensation. But I don't know what the future holds in store for me. My husband might die tomorrow because of an accident. I have children whose future I have to think about, and I also have to think about medical care. In a society like ours, the paradox is that it is practically only people on unemployment who can find a job. So if one day I were to look for a job, at that time I would have to be on unemployment. I will very willingly give up my benefits, on the condition that I be allowed to keep part of my status as an unemployed person." I must confess that her argument convinced me, and that is why people can now be considered completely unemployed, and entitled to compensation, but without collecting that compensation! The person simply has to file a request with ONEM [expansion unknown]. All the rights conferred by the status of a fully unemployed person will be kept, but that person will not collect any compensation. But such a procedure is a personal decision on the part of the job seeker. This means that he or she is entirely free to make such a request or not.

Question: Shouldn't taxation of unemployment benefits induce a considerable number of job seekers to choose this option?

Answer: No, I don't think so. We don't have any illusions in our country about the number of "lawyers' wives" like the one I just mentioned. And I don't think there are many cases in which unemployment compensation is added on top of other large incomes. Let me add that there is only a single case in which unemployment compensation is relatively satisfactory: that is when a person is considered the head of the household, meaning that that person is the sole source of income for the family in question. Of course, it is important psychologically to be able to point out to the public that unemployment compensation is not being abused. But I think that, practically speaking, that doesn't concern many people.

Question: In your dreams, do you imagine that one day we might achieve what was at one time the great hope of our days: full employment?

Answer: I believe we can not grow accustomed to living with such a high unemployment rate. But I also believe that we must move toward a radical transformation of the organization of working time in our society. I am convinced that we will recover satisfactory growth rates, even though we may not again reach the levels of the 1960s. Our GNP will again rise. The pie we have to divide will once again be a large one, but it will be produced by fewer and fewer people. So if we want to maintain a democratic society, we will have to share our working time in order to bring the largest number of people possible into the production system. We will also have to bear in mind the demands for continuing education in order to do away with situations that are all too common today: management employees or skilled workers who work like slaves in order to get ahead in their career and who, exhausted, are finally fired because they didn't have time to keep up with new advances in their field. I am also thinking of so many women who, after they spend 8 hours on the job, are forced to take on a sort of second job as a mother or as the person responsible for doing the housework. In short, it is not only the working hours that must be shared. All of the jobs in our society must be redistributed between young and old, between men and women, etc. Only when we have achieved this redistribution will we be able to think about living without unemployment. That is the great social revolution awaiting us in the future.

7679

CSO: 3619/35

OPINIONS ON GOVERNMENT EFFORTS TO SALVAGE AILING FIRMS

Legal Framework of Rescue Policy

Milan MONDO ECONOMICO in Italian 2 Feb 84 pp 27-53

[Article by Carlo Scognamiglio: "Rescuing Industry; Lots of Useless Laws for Salvaging Businesses"]

[Text] This article is extracted from the author's report ("Italian Industrial Policy and the Crisis of Business. The Experience of Law No 787/1978, 'Measures To Assist the Financial Recovery of Business'") delivered at a conference sponsored by the Christian Democrat's Arel think-tank to discuss "Banks and Venture Capital" in Bergamo on 16 December 1983. Speakers at the conference included Beniamino Andreatta, Guido Carli, Francesco Cesarini and Franco Grassini. Proceedings of the conference will be published shortly.

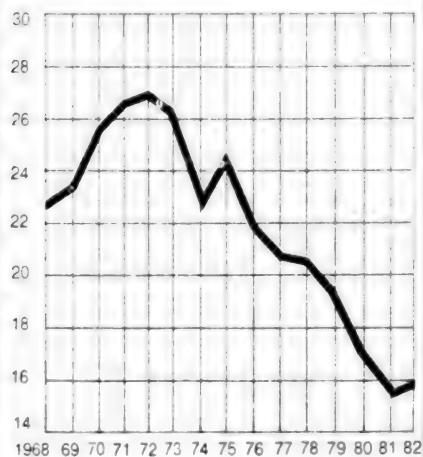
Over 500 companies, employing 85,000 workers, are undergoing or have undergone diagnosis and treatment by the Industrial Participations and Management Company (GEPI) or are in special receivership provided under the Prodi Act. Another 100 or so are undergoing audits, not to mention all the chronic invalids among partially-State-owned companies or the 600 million hours of undone work paid for out of the wage supplement fund in 1983. What all this means is that the oil-slick from foundering companies is still spreading at an alarming rate. One question leaps spontaneously to mind: is it better for Italy to go on providing life-support systems, or would it make sounder economic sense simply to pull the plug? Here is a logical answer, with documentation to back it up, based on our most recent experience.

PL 787, the corporate financial recovery act, was passed in December 1978. Its life-span, initially set at 3 years, has been extended in at least some of its provisions for yet another 3 years (in PL 626, passed on 4 November 1981, Article 5). That means that right now it is what may be only its first 5 years of legislative life, so this looks like a propitious occasion for an overall assessment of its performance.

Fatturato e costo del lavoro

ME

(incidenza del costo del lavoro sul fatturato nel campione di imprese di Mediobanca, valori %)



Fonte: Mediobanca. Dati cumulativi di 1.233 società italiane (1968-1982)

Figure 1

Turnover vs Labor Costs

(Labor-cost share of turnover in a sampling of Mediobanca companies, in percentages)

SOURCE: Mediobanca: Cumulative data on 1,233 Italian corporations (1968-1982)

Figure 2

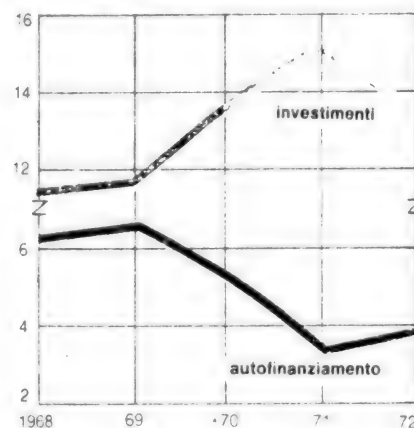
In-house financing and investments' share of turnover in a sampling of Mediobanca companies (in percentages)

Source: Mediobanca, Cumulative Data (cit.)

Autofinanziamento e investimenti

ME

(incidenza dell'autofinanziamento e degli investimenti sul fatturato nel campione di imprese di Mediobanca, valori %)



Fonte: Mediobanca. Dati cumulativi: cit

The sound technical rules for evaluating the results of a project tell us that the assessment should turn primarily on comparison between the goals expected, or merely hoped for, and the results actually achieved. I shall try, therefore, to see just what sort of offspring was actually brought forth by the mountain of debate and argument over the corporate crisis that struck between June 1975 (date of the last report from the governor of the Bank of Italy to be signed by Guido Carli) and February 1979 (date of promulgation of Decree Law 23 on special receivership for companies in distress, which subsequently came to be known as the "Prodi Act").

I purposely gave that latter date instead of the slightly earlier one of passage of PL 787, because I have always held that PL 787 was only one of the three legs supporting a project in fact designed for one single objective: the "institutional" response, if you will, to the corporate crisis of 1975-76; the other two legs were provided by the more familiar PL 675 of 1977, and, yes, by the Prodi Act. In support of this assumption, which is no minor factor in assessing results, it may be helpful to remind you of the circumstances under which all three of these laws were born, and the objectives originally attributed to them.

It was argued at the time that Italy was summoned to the rendezvous with the first really grave postwar depression on a global scale, which followed the October 1973 oil-shock, under the worst imaginable conditions. Even if we dampen the emphasis that usually accompanies writing of recent events which have yet to be fully weighed and digested, there is no possible doubt that the Italian economy at that juncture was in parlous shape, and that the effects of that recession were far more severe than they would have been if, had we been free to choose the most convenient moment for the crisis to explode, we could have moved it up a little -- say to 1968 or even earlier.

The fact is that over the 3-year period encompassing 1970 through 1972, there was a strong increase in nominal wage levels in the wake of the disturbances during the hot fall of 1969. The growth in nominal wages ran up against a stagnating trend in the domestic and international economies, and came while there was still a fixed exchange rate, at least among the major European currencies. As a consequence, it was not generally possible for corporations -- at least for those facing international competition and for those whose shrinking markets provided a cogent argument against price increases -- to restore their profit margins by shifting the burden of increased labor costs to their selling prices.

As you can see in Figure 1, the impact of labor costs on turnover rose by four percentage points from 1968 to 1972. Subsequent events led to very large reductions, amounting to 40 percent of the total: but I am getting ahead of my story. As a consequence, there was a drastic decline in the volume of in-house financing. As you can see from the numbers shown on Figure 2, the corporate

system reacted by stepping up investments -- especially, of course, labor-saving investments; the very same year that brought the steepest decline in in-house financing (1971) also marked a peak in investment efforts.

It should come as no surprise, therefore, that one result of the events of those years was the growth of corporate financial indebtedness from what were already historically high levels in the Italian system, to top two thirds of total turnover. 1973 ushered in a phase in economic policy which might be defined as "short-term management" of the economy, which lasted until the 1975-76 recession, which came on the eve of the period which directly concerns us here, that of the passage of the three laws designed to deal with the corporate crisis. I shall briefly summarize the events of those years, referring those who would like to consult more exhaustive analyses to the abundant literature available.

Early in 1973, the decision to "float" (i.e.: devalue) the lira, the introduction of VAT which proved a catalyst to flush out uncertainty as to how competitors would behave when they got down to making price decisions, and the rise in raw material prices worldwide laid the "real" foundations for a strongly inflationary turn in the economy. Industrial prices, to cite one example, rose by 15 percent in the first half of 1973. During 1974, the American and German governments' concern at budget deficits caused by oil price hikes were translated into hobbles on the economy. The Italian government went along with them, thereby tripling interest rates, increasing the cost of living by 6 percent (early in 1973) and by 18 percent (in mid-1974).

All that was lacking to set off the explosive mixture and precipitate an unprecedented crisis in the corporate system was the final spark of the recession, which was provided forthwith by the behavior of the world and domestic economies during 1975 and into the early months of 1976. From the vantage-point of 10 years' hindsight, we know what happens in enterprise when a sudden surge of inflation coincides with a rise in nominal interest rates on debt, so that the real rate remains "more or less" constant. A "hole" appears in company cash-flows, and that hole gapes the wider for the capital-intensity of the company and its debt ratio (leverage) increase.

How to Treat the Crisis

The 1975 crisis in enterprise highlights three synthetic factors which attracted intense interest on the part of politicians and economists, to wit:

-- the financial crisis of the corporations, due to the exceptional rise in financial indebtedness on turnover first (Figure 3), and the burden of debt service second;

FIGURE 3

THE BURDEN OF INDEBTEDNESS

Debt-service share of turnover
(in percentages)

SOURCE: Mediobanca,
Cumulative Debt (cit.)

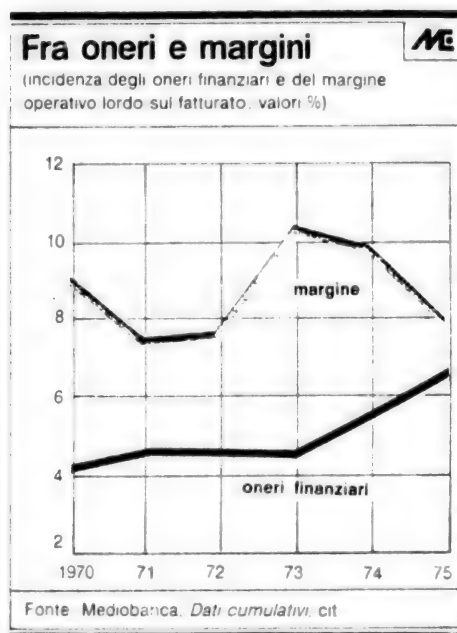
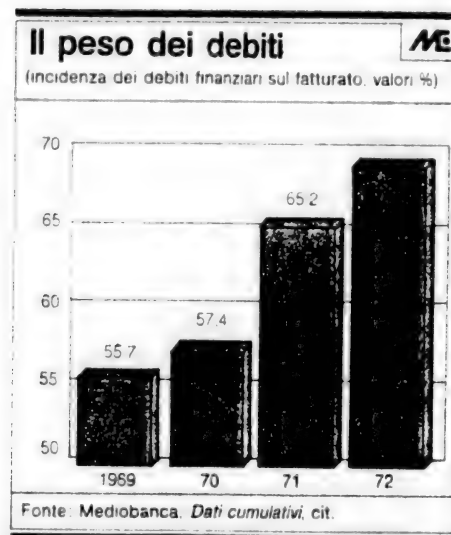


FIGURE 4

BETWEEN COSTS AND MARGINS

Impact of debt-service and operating margins on turnover
(in percentages)

SOURCE: Mediobanca
Cumulative Debt (cit.)

-- the swift drop in investments and in in-house accumulation in the corporations;

-- the decline in labor productivity, as it sagged by more than 10 percent during 1975.

In the face of this deteriorating situation a great many suggestions were put forward for dealing with it. Among them were two in particular which, by reason of the prestige of those who sponsored them and of the developments that stemmed from them, are worth recalling. In the last report (1975) that Guido Carli signed as governor of the Bank of Italy he included a warning whose significance was subsequently distorted beyond recognition, and this is what it said: "the vast dimensions of corporate indebtedness, and especially the portion of it incurred at low interest rates, should counsel conversion into shares of a portion of corporate financing which the lending institutions could offer directly to the public or place under financial management, possibly holding them pending final placement."

Clearly shown here was the concept that when financing provided by the creditors, thanks to credit-assistance legislation which utterly dismissed the balance among the companies' debt structure, or for other reasons, had virtually replaced company funds in their function, the lenders, if they do not deem it advisable to call on a company to declare bankruptcy, because liquidation does not appear to be the best possible solution, have no choice but to make the sacrifices required to reconstitute the firm's capital, transforming their own debts into shares or in some other way. Given such circumstances, in other words, the lending institutions cannot oppose the nature of their financing, if, viewed in the context of the real economic shape of the company, it is sheer fiction. I have had occasion to reflect on the wisdom of that warning again in the course of recent professional experiences. Shortly thereafter, in the summer of 1975, the government introduced a plan to "coordinate industrial policy and restructure the sector." That plan, which came to be known by the names of the two most respected spokesmen for the government in office -- Moro and La Malfa -- called for establishing a fund for the restructuring, reconversion, and development of industry, capitalized at 2,500 billion lire (to give you some idea of the order of magnitude it might help to point out that that year the net requirement for the national budget was estimated at 7,700 billion). The guidelines for the way the fund was to have been administered were remarkable for their discretionary flexibility.

Neither bill passed. The first touched off a storm of controversy, which mercilessly twisted and tortured its meaning. The second evoked a violent political reaction which, in the opinion of many observers, led to the fall of the government and to the early end of the legislature's term.

BENEFICIARIES UNDER PL 675

Financing granted under PL 675 as of end 1981 (millions of lire)

COMPANY	SECTOR	AMOUNTS
Manifattura di Val Brembana	Fashion	4,397
Benetton	Fashion	5,990
Gepi-Legler-Indisud	Fashion	36,490
Addafile	Fashion	985
Filatura e tessitura di Tolegno	Fashion	1,092
Italenka	Chemicals	1,593
Tessiture di Paesana	Fashion	2,150
Niggeler & Kupfer	Fashion	1,400
Grignasco Garda	Fashion	800
Legler Industria tessile	Fashion	8,090
Inditex	Fashion	3,980
Luigi Bosca & figli	Agric./Food	600
Taipieri	Agric./Food	900
Italsider (Bagnoli	Steel	377,037
Italsider (Taranto)	Steel	404,202
Italsider (Genoa-Corgniano)	Steel	113,449
Acciaierie di Piombino	Steel	81,214
Afi Falck	Steel	14,287
Reggiani tessile	Fashion	4,674
Cooperative Costruttori	Electronics	1,501
Kerimais	Food	22,744
Saffa	Paper	5,783
Sipa	Food	8,750
Ipt	Electronics	1,660
Cbs	Clothing	2,514
Italsider	Steel	61,447
Bossi	Fashion	1,500
Maglificio Giuseppe Gatti	Textiles	879
Mascioni	Fashion	2,066
Addafile Inditex	Fashion	4,965
Legler-Leglertex	Fashion	12,134
Sayer-Lack	Chemicals	2,000
Feme	Electronics	4,565
Linificio & Canapificio		
Nazionale	Textiles	10,946
Burgo Scott	Paper	85,955
Arcte	Textiles	925
Tessiture Niggeler & Kupfer	Textiles	3,630
Filatura San Marco	Textiles	2,750
Carlo Boselli	Textiles	807
Fertimont	Chemicals	68,241
Resem	Chemicals	28,588
Montepolimeri	Chemicals	178,083
Montedipe	Chemicals	145,955
Ausimont	Chemicals	129,871
Zignago tessile	Textiles	2,900

SOURCE: Ministry for Industry

It is a good idea, however, before going on, to make sure we understand precisely the overall economic logic that, even though it was never fully explained, underlay those bills. While cash-flow problems generated by an inflationary surge were virtually inevitable for industry, there is room to wonder how corporations can try to compensate for the dwindling flow of in-house financing capability.

The first road might be that of improving their own margins. But this obviously cannot be done by simply tinkering with price levels. Viewed in this fashion, the companies must be grateful if they manage to increase their own prices only enough to keep pace with inflation, without losing their competitive edge, which is to say if the exchange rate (for companies exposed to international competition) gradually adjusts in response to inflation. An improvement in operating margins could be had by cutting real wages, or by means of substantial improvement in productivity. The first of these options certainly was not picked up in Italy. The second possibility requires a sharp expansion in the economy (but that is not something industry can bring about), or else a productive restructuring that reduces the amount of labor used to produce a given amount, or again a technological "leap" that would enhance the value of the products while retaining the same labor input.

Structural Adjustments

Let's pause briefly on these last two reactions to inflation, or on these procedures for structural adjustment. The former is the one likeliest to occur in the "mature" sectors, and it has in fact been the predominant reaction in the Italian system.

However, the conduct of operations of that sort demands above all a "free hand," and that has certainly constituted (at least until recently) discrimination between public and private enterprises and, among private companies, between the big ones and the small ones. In the second place, increases in productivity through job cutbacks involve investment expenditures which can be very heavy indeed. They must be undertaken in a situation in which in-house financing is in sharp decline. Hence, both from the angle of external constraints on payroll cuts and from that of budgetary constraints, or of financial availability and requirements, the larger companies are at a disadvantage vis-a-vis the smaller ones, whose lower capital-intensity levels and smaller indebtedness make the impact of inflation less painful and hence make the process of structural adjustment -- if not easier, at least less difficult.

What we have just remarked in connection with structural adjustment whose objective is reduction of the overall cost of labor can be applied as well to processes based on the technology content in product. Here again, the investment effort is considerable, and hence harder to handle for companies most exposed to the impact of inflation.

The second route that, theoretically, could be taken to fill the void in cash flows created by inflation is that of outside financing. And this is precisely the aim embodied in the two bills we have been discussing. The financial system's reaction to the higher risk due to inflation, in fact, would have forced the more exposed companies (those with higher debt ratios and those most capital-intensive -- the big ones) to make sharp reductions in their own "real" indebtedness levels, and that could not be done except by freezing investments and creating unemployment, which is precisely what happened. The proposals in question were designed to prevent such effects, by reducing the debt ratios of the most exposed among the big companies (Carli), or by making funding available to them on extremely favorable terms, which might be viewed as recapitalization (Moro and La Malfa). Finally, both proposals were meant to provide a permanent remedy for the historical inability of Italy's financial system to deliver capital to industry, and to the more recent inability of industry to acquire capital through profits.

The Moro-La Malfa plan surfaced again in the next legislature (October 1976). It took almost a year to get through the legislative mill, and that long journey was a reflection of the political conditions at the time, particularly the fact that the government's majority in Parliament was larger than the one that had elected the government. The weird minotauric design of the measure, half act of Parliament and half government edict, stems from that previous circumstance, and both of them together gave rise to the circumstance that the most important -- or what were believed to be the most important -- provisions of that act never were actually implemented.

In essence, it amounted to a law to reorder the low-interest credit system. It was immediately clear, however, that even had the law not been marred by its serious technical flaws, did not so much as draw a bead on the prime target that had nevertheless been at the heart of its preamble. In fact, the amendments offered by Senators Nino Andreatta and Franco Grassini to Article 4 of the bill, designed to put a ceiling on the ratio of financial debts and company capital, above which companies would not be eligible for low-interest financing, which was based on the technically impeccable premise that if a company is too heavily in debt it ought not to incur additional debt, underscored the blunt fact that credit, no matter how easy the terms, cannot satisfy the requirement for in-house means. Hence if access to credit, as implied in the entire "philosophy" of special credit, is commensurate with making new investments, it becomes obvious that the practical utility of such a law, for companies in trouble, will depend in real terms on an excess of production capacity, turns out to be marginal if not actually nil. In short, the objective of the original proposals had totally vanished.

It was for this reason that the "Carli proposal" was picked up again (by Arel in the spring of 1977). This marked the start of a laborious markup period which ended with the promulgation of PL 787 in December 1978. The penultimate draft of the bill was confined to empowering the banks to form consortia to buy stock in "companies (which) can show a profit again (Art. 1)," offering some tax incentives to the consortium banks, but placing very narrow limits on their intervention. Then came Art. 5, providing for tax benefits to banks which agreed to "consolidate" their loans with interest discounts.

Step by Timid Step

On the whole, the bills had started out on the right track, but instead of following it all the way, they took only a mini-step forward. The consortium rules added up to something more like an investment tool (for companies staring at bankruptcy!) than like a way to change loans into shares). For the record, therefore, the loans would still be loans, even though they would actually be venture capital, in view of the disproportion between funds in the first category and those in the second. In the second place, there was a modest, though by no means unwelcome concession in the area of tax treatment of stalled loans (Art. 5).

It would have been a great deal better had that road, once started on, been followed with a little more courage. I believe it would have been far more effective to provide for a tax moratorium on loans converted into shares, as if they were uncallable until such time as the conversion process were complete. Missing from the maneuver that was thus taking shape, with easy terms for investment funding for corporate restructuring, and with incentives for interest rebates, was an essential link, having to do with modernizing the failing lending institutions.

The bankruptcy rules were born, I believe, of the view that bankruptcy meant the end of the road for a company. In times when corporate demographics are lively, it's not a bad thing to let one die now and then so as to make room for new ones. But, if an epidemic were to break out, as one did in the second half of the Seventies, we must do everything possible to keep as many alive as we can while we wait for the epidemic to burn itself out. The trajectories these laws followed, as had already been partially anticipated, were something else.

PL 675 had fair success with those of its provisions that were viewed as marginal (support for innovation through the IMI Fund, wage supplement fund for "overtime" work), but the rest of it was an abysmal failure. PL 787 gave us only three cases of application of the consortium rules. Tax relief for consolidation with interest rebates did somewhat better. As a matter of fact, when PL 787 expired in 1981, only this last provision was kept intact and strengthened here and there for incorporation into PL 626, enacted in 1981. There is nothing good to be said about the

special receivership commissions, despite the commitment of many fine commissioners. It [PL 620] introduced and gradually expanded a political jurisdiction into bankruptcy proceedings, providing an avenue for making creditors pick up the cost of achieving ends political in nature, when they are not merely electoral.

The attempt to come up with a valid institutional response to the business crisis, particularly among big corporations, thus came to naught. The tools designed to do the job turn out to be, respectively: unworkable (PL 675); inadequate (PL 787); unsuitable (PL 46); and non-existent (the institutional reform of the State participations system, meaning most of the big companies facing bankruptcy). In the meantime, structural adjustment of Italian industry happened anyway. The labor-cost impact on the value of product has declined by 40 percent in a single decade. About half of this process has come in the past 3 years. Over the same time-span, capital commitment (in-house and financial debts) per unit of turnover has dropped from 1.02 to 0.65.

Having scrapped the neo-protectionism shield provided by undervaluation of the currency and by easy credit, business and the unions alike had to abide by the rules of the market and of efficiency, ushering in a mighty wave of innovations by the corporations and freeing up labor relations by the unions. The failure of the reforms on one hand and the marketplace success of those who had led the battle against neoprotectionism on the other must not lead us to forget that the sober attempts made during the Seventies had to do with real problems, problems that still persist in the formalities and conventions that govern the way our economy works.

Our industrial economy expects a reform in financial brokerage, a reform of the bankrupt lending institutes and of the State participations system. It is to be hoped that these challenges will be met, and that those who must deal with them come up with adequate answers before yet another crisis spotlights once again the institutional fragility of our corporate system.

Managing Transition

Milan MONDO ECONOMICO in Italian 2 Feb 84 p 29

[Interview with Industry Minister Renato Altissimo]

[Text] The Prodi Act, GEPI, the wage supplement fund, rescue operations of one kind and another, laws and mini-laws for companies in trouble: all the "flowers of evil" that have skewed the rules of the competitive game on our market. Here is what our Industry Minister, Renato Altissimo, thinks about all this.

MONDO ECONOMICO [ME] What are your views on the industrial bailout policy pursued in our country for the past several years?

Altissimo: There is a lot of talk these days about George Orwell and "1984," now that we have actually stepped into that fateful year: well, when I hear people use terms like "bailout policy," I realize that in some way's Orwell's 1984 began in Italy quite some time ago. Why? The explanation is simple. One of the major vices in the "1984" society that Orwell shows us is the continuous use in "Big Brother's" propaganda of words and slogans that had nothing whatever to do with reality and things as they were and, in fact, the worse a situation became the more insistence there was on defining it positively. If we look at any Italian dictionary, we see that "policy" should mean "theory and practice whose object is the organization, the administration of the state and the direction of the government," whereas "rescue" in our language means (figuratively) an "action taken to avoid a loss or to correct a gravely compromised situation." Hence, literally, a "rescue policy" should signify government action to restore healthy conditions, meaning profitability, to a company in grave trouble. We have all seen, though, when has actually happened: public funds squandered, phantom companies kept alive for some misunderstood social end, patronage maneuvering, thousands of billions of lire tossed to the winds when they could have been used more profitably in new initiative. In short, a catastrophe. In Italy, not only has there been an irremediable distortion of the meaning of what could have been a prudent rescue policy, but there has actually never been an industrial policy worthy of the name; and now we are feeling the bitter consequences.

ME: The failure of the action taken under the "Prodi Act" is there in the figures for all to read. In your view, what were the reasons behind that failure? What was it that didn't work?

Altissimo: The Prodi Act is one of the most malignant "flowers of evil" ever to be born and thrive in the shadow of the welfare mentality that has thus far twisted the rules of the industrial game in Italy. The current president of IRI has said repeatedly that the causes of the crumbling of 1979 PL 95 (as Industry Minister at the time) are to be found in the absolute hash made of the original bill when Parliament expanded it, and its implementation, which was far too vulnerable to pressures of all kinds -- political, electoral, and those from organized labor. Be that as it may, the Prodi Act is a disaster: when I came to the Industry Ministry I found some 320 firms in receivership, with more than 30,000 people on their payrolls, massive resort to the wage supplement plan, and more than 2,000 billion lire of debt. Now we have to find some way out of this mess, cutting back on intervention and above all keeping any intervention short. This will translate into far more selective access to the procedure which enables the receivers to make a realistic assessment of the company's chances for recovery and does not force automatic termination on companies declared bankrupt by the bankruptcy court. We need to review the financing system, in view of the fact that

the one we have now, based on Treasury guarantees, has not proved efficacious; finally, we need a stronger commitment from the banks (in terms of financing and fidejussion), deep enough to activate whatever potential for recovery may reliably be found to exist in these troubled companies.

ME: You have yourself several times argued the need for a radical redefinition of the mission and intervention procedures used at GEPI. The draft proposal for GEPI's reform, circulated a few weeks ago, drew critical fire from many quarters as an attempt to institutionalize its operating as a parking lot for workers whose companies have shut down, a function thrust upon GEPI in more recent years. What is your answer to this criticism? Are you considering making any changes in the reform plan, and if so, what kind of changes?

Altissimo: For GEPI, which is a real financial emergency-room or, more properly, an incorrigible soft touch for chronic losers, I have much the same to say as I did for the Prodi Act. There is one aggravating factor, though, in that GEPI has been with us now for some 10 years, and hence the problems are even more cancerous. Therefore, it was decided to re-fund -- temporarily -- GEPI's "special" management, the one that has been stuck with some 10,000 workers who have no company to work for. This temporary measure is not to be taken, however, as a stamp of approval on the policy pursued until now: GEPI's reform will come in a short time and it will operate on the inviolable assumptions that it will not keep terminally ill companies alive by strenuous measures and, hence, that it will set a strict deadline for the time the patient has either to recover or shut its doors for good.

ME: On all sides we hear calls for a general re-thinking of the policy hitherto followed toward companies in trouble. You have already announced that a plan will be forthcoming within the next few months that will affect all major areas of industrial policy intervention. Will that apply as well to rescue operations? If so, according to what philosophy and with what instruments?

Altissimo: The plan now under study will affect all areas of intervention for an industrial policy worthy of the name. The object will be to streamline and standardize all the rescue tools that have been used and abused up to now, with a view to specific timing and eliminating waste. More generally, though, we must find clear-cut definitions for the terms of that process that may be described as "active management of the industrial transition," by which we mean the transition of Italian industry from the present situation to that of the 21st century -- the future, in a word, and of the activities projected for the future. We need to provide instruments to stimulate technological innovation, a set of "real supports" that will ease and expedite the restructuring-innovation process, a system of social protection that will smooth the path from the old to the new (reform in the

wage supplement fund, job placement, mobility, part-time employment, and so on). And we must also cut away the impenetrable tangle of laws, regulations, and bureaucratic red tape that strangle the entrepreneur's activity: we are working on this at the Industry Ministry. It's not an easy job, but the stakes are too high for us not to try, with all the strength we have.

Causes of Crisis, Changes

Milan MONDO ECONOMICO in Italian 2 Feb 84 pp 32-41

[Article by Salvatore Bragantini]

[Text] When a "crisis" hits a company, the reason is change, by which I mean the quasi-inability of its corporate structures to adjust to change. We usually get only partial and narrow explanations: and then we hear talk about a sector-wide crisis (either short-term or long-term), of "finance crisis", of crisis brought on by rising labor costs; looked at squarely, any or all of these can precipitate a crisis for a company only because the target company cannot or does not know how to adapt to change, how to strike new balances that will enable it to meet and deal with the new situation.

It follows that anything in a corporation that freezes its adaptive reflexes is going to increase the number of corporate crises, and to make it more difficult to solve the individual crises that actually occur. Even the Darwinian theory on the survival of animal species, commonly referred to as the survival of the strongest, speaks in fact of "survival of the fittest," meaning survival of those who are best adapted, those individuals who best manage to adapt to environmental changes.

Heedless of the warning implicit in this obvious fact, we prefer invariably to spin highly sophisticated theories of our own, which obviously don't manage to scratch the surface of our problems. And we see that in our country we do not abolish excess jobs, nor do we euthanize companies that have no future, reflecting a disturbing parallel between the special interests of the workers and those of the employers, which is precisely the prime impediment to change and cause of crises. We are notoriously far better informed than other stupid peoples who lack imagination, who think they must take drastic measures to get through hard times. And so we provide intensive care and life-support systems for our chronically and terminally sick companies, tenderly sheltering them from that unpleasant matter which, sooner or later, we must somehow manage to abolish: international competition. And since we are a country of Catholic traditions, we can certainly say that, for our ailing corporations, as for the faithful, "vita mutatur, non tollitur": life changes its form, yet it is never taken away.

Guided by these lofty intentions, we keep all the main machinery for elasticity and adaptation securely under lock and key; in so doing we manage to prevent the rescue of those companies in trouble which could really be restored to health. But, most importantly, we manage to lower the birthrate of new enterprise and

hence the generation of new "economic" (as distinct from the non-jobs we now pay workers not to do) jobs, by comparison with what happens in other countries. This happens because we have created for the specific purpose of "rescuing" companies in trouble a vast array of "instruments," all of them under government control, whose greatest achievement has been to "embalm" the status quo, perhaps in the Italianate expectation that things will have the good taste to adjust by themselves. And all this massively blocks our taking the radical measures which -- as experience teaches us -- are usually the only kind that can enable us to adapt to shifting balances and thereby get out of our troubles.

On the basis of this kind of analysis, we hear a number of entrepreneurs talking -- in a tried-and-true formula -- of the many snares and pitfalls which, by hampering their necessary freedom of action, doom the company to what is at best stagnation or mere survival, or at worst to steady decline. There is a lot of truth in these analyses, but the self-interest of many entrepreneurs is not often absent: on the other hand, it would be odd if the national ailment that is fear of the new and aversion toward risk should leave one class untouched while infecting another.

Assuming that the root cause of these crises is an incapacity (or impossibility) for any swift reaction to change, or, better, for any adequate preventive measures, let's try to see what changes lead most frequently to corporate crisis in Italy; at this point we shall be in a better position to form an opinion on the suitability of our "tool-kit" for repairing the trouble, as well as on the consequences of its proving unequal to the task. Remember, though, that the rescue of a company can be considered a success -- thus justifying its costs -- only when the "rescued" company truly gets back on its own feet and can thereby catch the eye of an entrepreneur or attract financial partners. This is so simple and obvious a proposition that it is often entirely overlooked.

As for the "immediate causes" of crisis, the recent conference on rescue operations sponsored by Bocconi's Sda identified the following principal causes:

- a. the helter-skelter growth of a company, which is generally followed by painful financial tension;
- b. errors in financing decisions for the company's operations, not necessarily connected with growth spurts;
- c. the decline of certain products or sales practices or, in the most acute cases, the wrong product/technology/market mix, due to structural causes which threaten the very existence of entire sectors, at least in their present configuration.

To these causes must be added that major factor in crisis which stems from the inability of the entrepreneur (or of the executive

staff he has himself chosen and trained) to cope with the troubles the company must face.

Causes of Crisis

Causes a. and b. above are those that give rise to the so-called "financial crises"; there is a great deal that could be said of these "financial crises," too often mistakenly blamed by those who cannot or will not grasp the fact that crises frequently are precipitated by real, rather than financial factors. The reagents are often to be found in the company's inadequate industrial profitability and are therefore not affected by the financing decisions made. We need only consider the so-called financial crises afflicting most of the State participations companies. Having said that, we must admit that there are indeed crises of a financial nature, albeit far less numerous than is generally believed.

To put crises of this sort behind us, all we need do is simply to go back to "capitalist ground-rules." Many Italian entrepreneurs are still indulging as a very comfortable habit, a very potent "pitfall" that makes for a very difficult corporate life: they want, in other words, even in times of high inflation when the lack of in-house means is lethal to so many companies, to go right on playing at "capitalist without capital." This portion of our entrepreneurial class (not all of it, luckily) seems to have lost its taste for continual change, that zest which, as Marx put it in his "Communist Party Manifesto," is the one true strength of the bourgeoisie, the agent of change, spurred by the inherent excitement and challenge offered by change.

The upshot is that when we look for ways out of "financial crises" what we generally find are paradoxical prescriptions. Does the company perhaps need money from its shareholders? Simple: somebody else should come up with the money, preferably the banks (but if that doesn't work there are also suppliers or employees). The result here is that either the banks grant these new loans -- and then the company will sink under the weight of its debt-service costs, which will make its failure the banks' fault -- or the bank refuses to grant the loan, and, again, the blame for the company's demise is laid at the door of the banks.

The owners of the crisis-ridden companies find themselves -- at the purely financial level, and hence at one remove from the "real" causes -- faced with a very clear-cut choice: either pump new capital into the company, or transfer a share of the company itself, or all of it, to somebody who has the requisite means and feels like taking a flier on recovery. In some companies trading on the market, it turns out that the controlling shareholder, either unable or unwilling to chip in his own holdings, will block access to capital increases the company needs. These are the cases in which, as Marco Vitale so cogently put it, we must protect the company against its own owners.

Many owners right now are finding it a lot easier to deal with the "discreet" banks rather than venture out onto the "open seas" of dealing with other shareholders. Here you have the umpteenth demonstration of our ingrained selfish interests at work: once a man becomes an entrepreneur, he believes he has the right to go on being one forever. The rules of proper capitalism, however, are very different. If the risks besetting the enterprise are frightening, and if the money it needs to be fed is too much in relation to the risk, or if the entrepreneur himself doesn't have it, fine: he can take in new partners or he can go into some other line of work. That happens to a lot of people, sometimes under even more traumatic circumstances...

This "corporation," by impeding a proper and timely solution to the financial problem, aggravates the company crisis and brings discredit on real entrepreneurs, who know in their bones that behaviour like this costs public confidence, inasmuch as high profits are acceptable so long as the company is taking a risk, and accordingly agrees to take the risk. In short, insofar as concerns crises that are truly financial in nature, the remedy lies in a return to mobility in the companies' owned assets; this capital must be transferable, but transfer must not be put off to the last minute or, worse, till it is too late. At that point nobody is ever going to be interested in investing capital, for any purpose save to preside over the company's funeral as a going concern. Think of the many, many cases in which a sinking company has been sold for its negative value: the buyer, in some cases, pockets the "dowry" for himself and puts back only a token amount into the company. A few months (maybe a year...) of hand-to-mouth existence, and he will be shouting for the government to rescue him.

Styles in Intervention

As for crises resulting from managerial misjudgments, or those covered under point c, above, they unfortunately require only that, once the ailment is correctly diagnosed, treatment be initiated promptly and decisively. Soft-hearted doctors, as we know, would rather wait and see how the disease progresses. Metaphor aside, and as indicated by the cases -- unfortunately more numerous abroad than in our country -- of truly successful rescue operations, you have to change the company's top management, force its owned assets (once again) to do their part or stand aside, free the company from its manpower overload, shut down plants or build new ones, go outside and buy things that used to be made in-house or vice-versa, branch out into new products, and so on.

All these are styles of intervention that call first of all for clear thinking, but they also require a brand of determination that may look a lot like sheer "meanness." You must keep the goal clear before your eyes at all times, and really want to reach it: and the goal must never be to foist the hot potato off on the State participation system or on some other ever-available "rescue crew," but rather to get the company making money again. If this

is not the goal, or if the goal over time proves to be unattainable, then the rescue operation is nothing but sheer waste of time and money.

As for the time factor, experience shows that a period of two or at most 3 years is enough to get even a sick giant back on his feet. It is hard to see why it should take more time to cure a company with 500 workers than it took FIAT, or Olivetti, or Pirelli to get back into the black. After so long a time, the company will, among other things, have lost its best workers, or seen their morale plummet from a bulwark of strength to a specific point of weakness.

At this point we can form a judgment as to the rescue equipment available in our country: the State participation companies; special receivership, called, for short (or perhaps not without a pinch of sadism) the "Prodi Act," and the GEPI.

In the light of these considerations, we must ask ourselves the following questions: do these instruments encourage or hamper adaptation to the changeable conditions of the economic environment? Specifically, what attitudes do they foster among the owners toward the company? And what support do they lend to a policy of genuine recovery, which, furthermore, involves radical measures? And also, what term do they place on their own activity?

Let's quickly clear the field of the Gepicanard: this company has in fact already practically abandoned its few remaining efforts at managing ailing companies back to health, partly because it let itself be gratuitously used as a dumping ground for companies that were already "dead," on which all the experiments had already been tried (and had failed). Chastened by this experience, GEPI is now handling its intervention almost single-handed, offering sturdy incentives -- which no law passed by Parliament has ever provided -- for new enterprises ready to absorb the workers laid off by the companies in crisis. There is no point in going back over all the distortions, abuses, and legal monstrosities begotten in GEPI's operations; those are matters only too familiar to us all, which sooner or later will lead to a global rethinking of the problem, so as to make very sure that uncontrolled growth does not turn Gepi itself into an "employment problem." GEPI's role in real, bona fide rescue operations has already been completely rewritten. All three of the instruments listed above, however:

-- by their very nature, are more bureaucratic than entrepreneurial in content, although this hardly increases the guarantees for lenders;

-- they are factors making for rigidity, although that, rather than easing adaptation to the environmental variables, make it harder still;

-- they do not push the owners to do their duty as partners, fattening the company's coffers or selling it off, since these represent one last try at putting off the reckoning and, in some cases even a very convenient way to slip off and leave the Old Man stuck with the headaches, sometimes even managing to wriggle free of their surety responsibilities;

-- they set no time limit on their action, unless they feel like observing the limit imposed by the Prodi Act, which was extended once a couple of years back at the time it originally lapsed. When you are facing a drastic decision (witness the recent cases of Einaudi and Gondrand) all you need do is poke a hole here and raise a little blister there on these "Pongo laws," and everything will take care of itself. When the 5-year term now contemplated expires, who can counter the arguments that 5 years are not enough, and that the deadline must be pushed to 7 or why not make that 10 years, which is also a nice round number?

All three of these instruments, in the last analysis, have their director/producers in the executive branch or rather, in our present conditions, in the political parties: some of these, incapable of doing their job, which is to show the Italian society some signs of development, find it more fun (and more rewarding...) to busy themselves with the so-called "names" and thus parade their power over the behavior of their "appointees." These parties are the ones really responsible for a situation that has made government in our country look like old King Midas in reverse: whatever he touches turns to lead. How can a politician whose days are spent in frenetic search of consensus, over a very short span of time, approve recovery plans advanced by people he has the power to appoint and, frequently, to dismiss? And yet if the would-be healer does not have behind him somebody with the courage to agree to his plan, his mission has failed before it began.

There is no point in wasting time looking for the philosopher's stone: the root of the evil lies here, in this irrepressible tendency to compromise, and in the belief that events can be eluded: it is, finally, a constant in Italian public life. From the frenzied quest for consensus and compromise stem enormous economic losses, and the assured defeat of any rescue attempt that is made, in our present condition, under the aegis of government.

All of the foregoing leads me to believe that the tools for rescuing companies in trouble and for protecting their creditors contained in the good old Civil Code are still the best. The fact that the healing process takes place under the watchful eye of the courts will not be much of an incentive for speed in decision-making, but the court is at least concerned mainly with protecting the creditors: from this fact derives support far more persuaded of the value of recovery treatment than any coming from the government. Then there is another advantage, in that the instruments provided for in the Code realistically set a time limit.

TABLE 2

GEPI INTERVENTIONS BY SECTOR, AREA, AND WORKERS, SEPTEMBER 1977 THROUGH JUNE 1983

SECTOR	(as of constitution)		(Sep 77 though Jun 83)		TOTAL	
	INTER- VENTION	WORKERS	INTER- VENTION	WORKERS	INTER- VENTION	WORKERS
Clothing						
Center-North	11	7,368	--	--	11	7,368
Casmez*	6	4,640	3	580	9	5,220
Total	17	12,008	3	580	20	12,588
Machinery						
Center-North	27	15,457	--	--	27	15,457
Casmez	7	1,572	6	1,988	13	3,560
Total	34	17,029	6	1,988	40	19,017
Textiles						
Center-North	6	4,810	1	251	7	5,061
Casmez	3	1,047	2	160	5	1,207
Total	9	5,875	3	411	12	6,286
Automotive						
Center-North	3	5,662	--	--	3	5,662
Casmez	--	--	--	--	--	--
Total	3	5,662	--	--	3	5,662
Electronics						
Center-North	2	6,674	--	--	2	6,674
Casmez	1	109	1	402	2	511
Total	3	6,783	1	402	4	7,185
Shipyards						
Center-North	3	1,333	--	--	3	1,333
Casmez	2	356	--	--	2	356
Total	5	1,689	--	--	5	1,689
Plastics						
Center-North	2	1,358	--	--	2	1,358
Casmez	3	1,003	2	142	5	1,495
Total	5	2,361	2	142	7	2,503
Food Products						
Center-North	1	198	--	--	1	198
Casmez	3	487	2	86	5	573
Total	4	685	2	86	6	771
Construction						
Equipment						
Center-North	--	--	--	--	--	--
Casmez	--	--	3	1,049	3	1,049
Total	--	--	3	1,049	3	1,049
Other Sectors						
Center-North	8	2,735	--	--	8	2,735
Casmez	1	1,710	4	1,771	5	3,481
Total	9	4,445	4	1,771	13	6,216
TOTALS						
Center-North	63	45,595	--	--	63	45,595
Casmez	26	10,924	24	6,429	50	17,353
Total	89	56,519	24	6,429	113	62,948

* Cassa per il Mezzogiorno (Southland Development Fund)

SOURCE: GEPI

TABLE 3

BANKRUPT CONGLOMERATES AND THEIR RECEIVERS

Industrial Conglomerate Title	SECTOR	Special Receiver under Prodi Act	Payroll at time of in- solvency	Number of firms in- volved
ANDREA E	Textiles	Piero Garavaglia	0	5
BOSI	Lumber	Mario Fanti	600	9
CEAT	Tires, cables	Alessandro Braja	3,377	4
CENTROFIN	Real Estate financing	Luciano Pandiani	900	16
COTTOROSI	Textiles	Carlo Rinaldini	2,258	4
ERCOLE MARELLI	Electric tools	Renato de Leonardis	5,500	11
FIT FERROTUBI	Steel Tubing	Giancamillo Naggi	2,356	23
FLOTTA LAURO	Shipfitting, navigation	Flavio De Luca	2,000	19
GENGHINI	Construction, credit	Floriano D'Alessandro	986	23
GRAZIANO	Machine Tools	Andrea Carli	411	3
HELENE CURTIS	Cosmetics, sugar refinery	Stefano Podesta	1,200	8
ITALCONSULT	Engineering, plant design	Luigi Cappugi	610	2
ITAVIA	Air Transport	Bruno Velani	1,050	2
LIQUIGAS	Chemicals, credit, gas distribution	Enrico Baldazzi	5,250	30
MARALDI	Steel, sugar	Luciano Dori	2,300	12
MONTI	Oil	Pier Giusto Jaeger	1,800	4
NOVA	Housing	Gastone Tacconi	340	2
PAOLETTI	Textiles	Giandomenico Righini	540	11
PAN ELECTRIC	Electrical in- stallations	Mario Boldi	650	3
REDAELLI	Steel	Gualtiero Brugger	3000	8
SAFAU	Steel	Luciano Dori	600	5
SALVARANI	Furniture	Giuseppe Contino	1,200	1
SIMA	Machinery	Enrico Cavallo	720	2
STEFANA	Steel	Luigi Landra	230	2
PIANELLI/TRAVERSA	Electric machinery	Mario Boldi	1,498	8
STERZI	Paper products	Giovanni Maria Abbaticole	550	3
VOXSON	Electronics	Emanuele Morici	1,731	2

SOURCE: Ministry of Industry, October 1983.

State and Special Interests

Our attention has been called repeatedly to the enormous river of resources the State pours out for the wage supplement fund and the many other approaches it has tried to save jobs that have no market. It has been emphasized that this spending policy, by its all-out defense of existing jobs, winds up preventing anyone who does not already have a job from seeking one. It is a form of special-interest influence for which organized labor has properly been blamed.

What we have said thus far allows us now to look at an aspect of our situation which is too often forgotten: this same special-interest pressure is revealed in the behavior of a segment of the entrepreneurial world. This kind of pressure can be found in attempts to sell the notion that certain companies can be rescued and restored to health when in fact they are too far gone, as well as in asking for more and more new "provisions" on easy terms for existing companies. Such provisions of course funnel funding away from low-interest help which could, along with simplification of many procedures, make it easier for new companies to thrive. In so doing in order to protect existing companies, we are delaying or aborting the birth of new companies.

One more point might be made in connection with the impact of the inefficiency of State machinery on corporate life: a government that doesn't make the trains run or other public transit function as it should, which leaves an antediluvian telecommunications system in place, which is slow pay, which only grudgingly grants earned leave and then only after interminable delay and incidentally encourages corruption among its employees, that has transformed the laws on low-interest loans into an impassable briar-patch, is the source of trials and tribulations to enterprise which would not exist in a well-ordered State. And it finds itself compelled, after some time has elapsed, to spend on rescuing companies brought to their knees by its inefficiency sums far greater than those which, had they been well and timely spent, would have helped not only enterprise but our civil comity itself.

There is, however, another side to the coin, namely the fact that this slovenly State is also a spendthrift State. In addition to burning money to save companies already breathing their last, it also keeps alive (vastly overpaying for unnecessary services, the equivalent of using taxpayers' money to buy up surpluses and so on) companies which, were they put on the free market, would collapse before the sun went down. The welfare population, if you will, is considerably broader than it looks.

Let's hope that we have not gone beyond the point where the hoped-for end of welfarism could doom, along with the companies already beyond hope, a lot of others that look healthy but are surviving thanks solely to a "market" which is itself decked out and made

up by that same welfarism. We must let the fresh air of the market into our stale, stuffy environments: but we must be mindful, too, that drafts of that same air can turn those who look healthy as oxen sick as dogs.

When Judge Turns Entrepreneur

Milan MONDO ECONOMICO in Italian 2 Feb 84 pp 41-48

[Article by Pietro Varvello]

[Text] Over the last decade, several objective factors of a structural type and others of a financial type connected with the credit crunch and high interest rates have spawned a kind of "uneconomic mindset" that has infected our industrial system. The two phenomena, while substantially different, have brought similar effects with them: increasing corporate dependence on credit, a decline in managerial motivation, the investment drought, and so on.

As it was described by Irving Fisher half a century ago, the persistence of such conditions, like a spiral whose rising coils are pressed ever more downward as time passes, has steadily weakened enterprise, creating a state of suffocation, sometimes traumatically snuffed out by bankruptcy, at others in the receivership proceedings designed to protect creditors, and at yet others in alternative ways designed primarily to maintain the patient's integrity for a certain period. This last group, introduced by Parliament specifically to avoid indiscriminate reliance on the bankruptcy procedure and hence its uncalled-for proliferation, have given rise to some doubts as to whether or not any of them can actually restore the ailing companies to health.

Among adversary proceedings of this type, the newest is that of special receivership, which, according to the intent of the then Industry Minister, Romano Prodi, was to have introduced a new instrument to restore to health, transfer, or sell the business divisions of troubled corporations. Four years of experience inside the 236 companies placed in receivership have revealed both the scant attention paid restructuring plans and the extreme shortage of loan funding provided for under the Act (which has led companies to borrow without paying off the debt incurred by the current management), not to mention the difficulty of solving the employment and labor costs problems (40 to 50 percent of the unemployed are still "parked" and drawing on the wage supplement fund). This, then, is the baleful bottom line on implementation of the Prodi Act, as drawn by Vittorio Barattieri, director general at the Industry Ministry, to which was recently added criticism from the chairmen of the Chamber and Senate Industry Committees.

Just what is it, then, that didn't work in this Act, which introduced very promising proposals that had been successfully used 40 years ago in the United States to rescue foundering industrial corporations? The basic problem is not so much the resort

to legal machinery as its realism and its potential for application. In fact, much of the criticism we hear these days has to do primarily with the political approach and the procedural decisions taken in several instances. Furthermore, over these past several months, further legislative vicissitudes have gutted the Act and have already reduced it to a mere welfare measure, rather than an instrument for industrial policy. It now becomes apparent why there are calls on many sides for reforms which would limit its use over time and curb intervention under it.

"The Prodi Act," says Luigi Guatri, lecturer on industrial corporate economics at Bocconi University, "must remain within the application constraints placed upon it at the outset: [it was to be] an emergency instrument for major corporations in crisis. Only within that framework can we get rid of the implementation problems we have been encountering." A bit harsher is the view of Judge Bartolomeo Quatraro, a magistrate in the bankruptcy section of the Milan Tribunal, who agrees with the opinions expressed in the Barattieri report: "In reality the Institute has been used as a legal tool for transferring to the State -- with incredible ease -- the gigantic burden of corporate, financial, and employment problems that have long beset our major enterprise."

Altogether negative is the verdict of Luca Piazza, who heads the Milan IRES-CGIL: "The Prodi Act is clearly unsuited to handle industrial rescue operations and now amounts to a mere liquidation formula: you need only count the corporations who went into the special receivership program over the past 4 years and came out alive." Even the lenders and suppliers to the bankrupt companies take a very dim view: particularly the suppliers, who, under this Act, have no legal levers to protect their claims or to voice an opinion as to the company's continuing to operate. The record becomes truly alarming when you analyze the individual corporations in trouble, of which, as of today, not a single one has been restored to health (in corporate terms), although some 1,300 billion lire have been "invested."

Disappointing Performance

In its application, says Gualtiero Brugger, receiver for the Redaelli group and part-time lecturer on production functions at Bocconi University, the main thing the Prodi Act has given us is the problem of government-guaranteed loans. As for Redaelli, the second conglomerate admitted to special receivership, "I found no problems to speak of insofar as access to bank loans is concerned, even though the market interest rates hit hard on financial management." The first company in the Redaelli conglomerate was put into receivership in April 1980 because of the negative performance of the steel industry: it was followed, in rapid succession, by all the others. The recovery plan, already approved by CIPI, called for the establishment, through corporate spinoffs by the troubled conglomerates, of several new companies "in bonis" which would carry on such production activities

as were deemed appropriate and promising; the plan also provided for their balanced management, both through proper capitalization and through operational measures designed to eliminate such uneconomic soft spots as marginal products, overloaded payrolls, and so on) and, lastly, stipulated that shares in these new companies be sold in time to be able to wind up the liquidation procedures for the corporations undergoing special receivership.

This recovery plan, drawn up by the first commissioner (Luigi Guatri) and implemented by Brugger, got the new companies -- Redaelli Tecna, Dervio, Redaelli Tecna Meccanica, and Ct Ceretti Tanfani -- going, although the last of them still belongs to and is run by the parent corporation. "In this recovery plan," says Brugger himself, "foremost in our minds at all times were the two sets of problems contemplated by the Act: that of liquidation and that of a new start for companies that could be saved." Following the massive layoffs that slashed a payroll of some 3,500 in 1979 to the present bare-bones 1,800 (1,400 by the end of the recovery plan), management of the "new" companies was aimed at reorganization of the structure and the cadres and a revision of the production organization so as to make them "appetizing" to a possible private entrepreneur in a very short time, since in March of this year the special receivership system is slated to expire (although it may be extended for an additional year).

"The conclusion that can be drawn after about 4 years," Brugger says, "is one of cautious optimism as to the productive new start for some companies in the conglomerate, even though it all depends to a degree on the way the market performs: until such time as they can put their products on the market at profitable prices, it will be very hard to find entrepreneurs willing to invest in this sector." The ultimate goal is to achieve gradual liquidation of the old companies (which up to now have accumulated much of the red ink) with the proceeds of sale on the market of those new companies.

Still pending and awaiting resolution is the status of the Fit Ferrotubi corporation of Sestri Levante, which went into special receivership in December 1982 following a declaration of insolvency by the Milan Tribunal. "The main reason for the crisis," says marketing expert Giancamillo Naggi, special receiver and owner of the Naggi marketing bureau in Milan, "lies in the collapse of the market for steel pipe used in oil research, which occurred in the United States at the end of 1981: in a few months, the situation slipped from saturated plant capacity to all but total shutdown."

The recovery plan for the group, which consists of five production units, 21 marketing companies, and an engineering company, started from the realistic assumption that Fit is not a group that can hope to generate sales, within the time stipulated by the law, in volume sufficient to provide the management funds for its rescue. In fact, owing to the obsolescence of their

plant, its companies cannot produce at competitive costs and so it is highly unlikely that private entrepreneurs would be interested in buying them. Furthermore, since a major share of the group's activity is concentrated in the Ligurian area of Sestri Levante, the rescue operation would involve other aspects in the areas of jobs and social impact.

The problem thus becomes part of an industrial policy plan which takes account of the importance, in the national interest, of having a local source for small-diameter continuous steel tubing, and therefore foots the bill for investment in the new plant (about 300 billion lire), which would also save 1,500 jobs (of the 2,100 there at the end of 1982). "During the whole of 1983," says Naggi, "in addition to drafting the recovery plan which is awaiting imminent approval, the Riva Trigoso plant, which makes steel for Dalamine, resumed operations in March. For the other operations, we prefer to wait for the plan to be approved so as not to start shopping for loans without clear prospects for recovery." The end goal is to get Fit Ferrotubi operating under a system of financial and managerial interchangeability with other State-owned steel companies.

Practically restored to health in some of its activities, and ready now to emerge from the receivership status it entered in August 1981, is Helene Curtis of Milan, which, besides the parent company of the same name, consists of Valentino Profumi, Christian Jacques and Germain Monteil in the cosmetics division, and Zuccherifici Meridionali in the sweeteners sector. "The two situations are being kept separated," says Stefano Podesta, receiver for the conglomerate and lecturer on the economics of commercial corporations at Bocconi University. "As for the Zuccherifici Meridionali, the short-term prospects are not bright and the only way out would seem to be selling it to private buyers who could then use the recent decree law which provides a fund of 40 billion lire for restructuring and acquisition of sugar-processing companies." And in fact it is not at all likely that there will be either a further cut in the payroll (down from 120 in 1981 to 85 today, all of them drawing wage supplements) or any attempt at streamlining its installations in view that the Policoro plant in Basilicata is already at the lower edge of optimal size. The good news, however, comes from the cosmetic division, which employs about 450 people: Helene Curtis has cut losses drastically from 50 to 10 percent of turnover, while the other three companies (much smaller in size) have already begun to show a profit again.

How was this remarkable recovery achieved?

"When the group went into receivership -- says Podesta, it showed all the symptoms common to failing companies: total lack of liquidity and financial means, a huge debt burden, suppliers refusing to make deliveries, a sagging market image, and an over-large, dispirited work-force." Between the two roles, that of official receiver and that of entrepreneur, Podesta opted for the

latter, and so he immediately set about mending all the contacts that had been broken off or had deteriorated with the company's employees, suppliers, licencees, and agents. The only relations he could not put back together again were those with the banks, since Helene Curtis had been achieving in-house handling of its own financing by delaying payments for as long as possible, using its cash flow only to cover current expenses and hence stinting on the very marketing investments that were imperative if it were to be competitive in the cosmetics sector.

"Notwithstanding all this," Podesta concludes, "today these companies are in a position to make money on the market and hence to find an entrepreneur willing to take them over: for Helene Curtis, the situation may come together within a very short time; for the others the only thing left to be done is to find the right buyer, but there is no hurry there because their managements are all back in the black and hence can stand by themselves."

These three corporate cases, with their disparate sets of problems, provide the occasion to raise the fundamental issue, the one recently discussed in numerous debates and conferences: Can the Prodi Act cure situations in crisis, or would it be better to use other instruments already made available by the lawmakers?

The Role of the 'Commissario' (Receiver)

The strong points of this law, which make it different from other adversary proceedings, are concentrating powers in the hand of a special receiver appointed by the government, financing guaranteed by the State, and consolidation of group's debt load as of the date of its entry into the bankruptcy process. On the first of these strong points, Vittorio Coda, professor of corporate economics at Boccone University, points out that:

"In an insolvent company, its property, discredited and compromised by its failure, is rejected as security by its creditors, by the banks, etc. The Prodi Act thus closed this power gap by providing a government-appointed "commissario" who would operate with full powers for a limited time."

In the real world, this kind of "Judge Charon" deciding which soul he will ferry across the Styx and which he will leave to wander on the shores of night, stays in his post for an indefinite time and gradually loses a considerable share of his usefulness and his credibility. Furthermore, receivers have not always proved to possess those managerial prerequisites for dealing with crisis and have tended to settle, partly in view of the scant resources available to them, to in favor of the first soul in line: the receiver.

"To restore a company's health," says Pietro Gennaro, head of the Strategy and Organization Consulting firm, which has dealt with several conglomerates in trouble, including Maraldi, "you must move in on at least two fronts: the first, which involves a

revision of product, price and client relations policy; the second, inside the company, which sets the goals, reviews the organizational roles, and introduces an incentive system. This approach makes it fairly certain that you will succeed in devising a sound rescue plan."

Recently Ettore Massacesi, president of Alfa Romeo, underscored the need to go into the restructuring process with an outside manager assisted by consultants answerable only to him and paid by him.

"The rescue plan," says Ettore Gotti Tedeschi of McKinsey, who helped draft the plans for several troubled conglomerates, falls into two phases: the diagnosis and the definition of strategic objectives. It is therefore to be hoped, particularly for the second, strategic, aspect, that the receiver will avail himself of outside consultants."

There are many, however, who are doubtful that, in a company in receivership, it is possible to apply those sophisticated management procedures necessary to guarantee rescues.

"Within a very short time," says Gaetano Calabria, who was chief receiver for about a year at Salvarani, "you realize that you are working within bureaucratic and time constraints that thwart all efforts to manage the crisis with decision and timeliness." Other eye-witness reports and company accounts harden this image of commissioners who steadily atrophy in their role until they become nothing more than receivers.

What Are the Odds?

The second strong point in the Prodi Act can be dealt with in a couple of lines with the rueful discovery that the original 700 billion lire appropriated at the end of 1979, had in the span of a little over a year vanished without a trace (most of it swallowed up in the maw of the Liquigas-Liquichimica debacle). Accordingly, commission members got into the habit of drafting their recovery plans, knowing full well that the funding would never be forthcoming. It should thus surprise nobody that all their cheese-paring sessions have yielded no results at all.

That leaves only the third, and perhaps, the only strong point of the Act which, like forced administrative liquidation, freezes the company's entire debt load (and stops the interest's running) as of the date of the decree, thus getting rid of the creditors, who are not only never interviewed, but whose claims are relegated to the end of the line, behind the "consolidated debts" the company will accumulate while it is in receivership.

"This one advantage would suffice," says Paolo Gamboni, the financier-entrepreneur president of Gafin who resurrected the "GEPI-

ized" Faema company, "to rescue a firm in trouble, provided, of course, that it has sound prospects for recovery." Actually, there is indeed a danger, if you set about saving a company in dire straits, of forcing the reduction in size, shutdown, or bankruptcy of other healthy companies.

Given this analysis, we now see that it is not only the way it is applied that casts doubt on the efficacy of the Prodi Act; it is the fact that the machinery in the law itself fails to state the parameters for assessing the future economic soundness of the management, before granting an interim permit to resume operations. Absent this prior scrutiny, corporations have been admitted to special receivership status long after their actual bankruptcy, and once admitted, gone right on accumulating more debt. Furthermore, the commissioner himself cannot always stand over the parties -- not when he must cope with the whole area of social and employment concerns.

These and other shortcomings in the Act have elicited proposals for reform from several quarters, aimed at more selective and prudent utilization of the Prodi Act and some have offered suggestions for broader acceptance of other adversary proceedings along the lines of special bankruptcy and of negotiated security to guarantee that, if properly utilized and combined with a few amending alterations, can function as instruments for recovery.

Precisely because the forbidding economic climate has swelled the number of companies that Adam Smith called "rudderless and destined to sink," we need, above and beyond any ideological positions, to undertake a penetrating review of adversary proceedings: including among them special receivership, which should play a small, well-defined role in rescuing groups of enterprise that have found themselves in trouble because of transitory factors of a financial or managerial type. In the other cases, we should turn to other solutions which are perhaps more drastic, but which, as Edwards and Townsend wrote in 1981, are "the price we must pay for allowing individuals to stand by their assessments of the market outlook and their faith in their own efficiency and skill."

Salustri on Rescuing Business

Milan MONDO ECONOMICO in Italian 2 Feb 84 p 33

[Interview with Alfredo Salustri, Director General of Confindustria, conducted by Mario Calderoni]

[Text] "An opinion on the rescue policy? It can only be a negative one: we have dealt and are continuing to deal not with intervention to save companies in trouble, but to save jobs that are no longer economically defensible." Alfredo Salustri, head of Confindustria, has

no doubts: the problem of holding employment levels up cannot be the province of industrial policy, but must be solved by means of social shock-absorbers.

Solustri: Let's strengthen and change these tools if they are not adequate; let's devise an aggressive manpower policy; but let's not go on raping the market and pointlessly burning public resources.

MONDO ECONOMICO [ME]: Starting from this general premise, do we still need a rescue policy? Under what conditions?

Solustri: I do not approve of raising rescue operations to the rank of "policy": we should be talking about instruments to be used in exceptional cases, in companies floundering for unforeseen conditions in the market, or in difficulties because of mistakes in management, or ill-advised investments. In these cases, when, that is, we are looking at real chances for the company to recover and do so in a relatively brief time, its rescue is not only permissible, but, I should say, mandatory if we want to avoid wasting resources in the form of plant, know-how, startups, and so on. But in these circumstances it will be the market itself that provides the "rescue crews." You may be sure that if a company is salvageable, there will be a race to grab the deal, and there will be no further need for government to step in.

M.E.: Your assessment of the Prodi Act and of GEPI, then, is absolutely negative.

Solustri: Let's stick to the facts. The purpose of the Prodi Act was to rescue large industrial conglomerates which, although they were in crisis, had technical and productive resources that were substantially unaffected. Unfortunately the results are worthless: only a few companies in the Monti Group, transferred to ENI, and the Cotonificio Rossi came out of special receivership alive, to my knowledge. The Act turned out, among other things, to be punitive in dealing with creditors, and it made deficit situations permanent.

ME: In your view, what are the reasons for this failure?

Solustri: The letter of the law has been betrayed. All that is left is a determination to hold the line on unemployment, at all costs. Mark you, I'm talking about jobs, and not about incomes, because there are other instruments for dealing with them.

M.E.: What was it that didn't work in GEPI?

Solustri: The rationale is the same. There is nothing for which to blame those who headed the financing agency: they were invariably correct and professional. It's the formula that is wrong, because it tends to institutionalize what ought to be exceptional, to view as the business of government what is properly the concern

of those of those whose business is the market. Misinterpretation of the rescue operation logic and the degeneration of public intervention thus thrust cohabitation upon the State participation companies, which enjoy a permanent guarantee of survival, those undergoing special receivership or Gepi patient status, which have the same guarantee of survival -- albeit for an indefinite period, on one side, and those which operate according to the rules of the market, and the latter are thereby subjected to the unfair consequences of the anomalous presence of the sheltered companies. This state of affairs is unacceptable.

M.E.: What alternative would Confindustria suggest?

Solustri: First of all I must repeat that it is absolutely illegitimate to dignify the rescue question by calling it industrial policy. Industrial policy works when its aim is to create an environment favorable to enterprise, bearing essentially on the productive factors and on unnecessary regulations.

M.E.: But wouldn't that be tantamount to underrating the scope of the crisis which has struck entire sectors of the economy and spread to more and more areas of our country?

Solustri: Obviously you cannot simply dismiss reality, : gnign ignorance of sector-wide crises which are sometimes inter en with territorial crises. We must, however, realize that the instruments of choice for situations such as these are those of incentives for withholding or withdrawing investment and for worker relocation: in short, measures that do the least possible damage to the sovereignty of the market.

Galbusera on State Intervention

Milan MONDO ECONOMICO in Italian 2 Feb 84 p 36

[Interview with UIL Secretary General Walter Galbusera, by Mario Calderoni]

[Text] Business and industry often accuse organized labor of inconsistent behavior in recent years in response to government intervention in foundering companies. On one side, they note, the unions inveigh day in and day out against welfarism, but in fact they fought to protect every job -- even those that no longer existed.

What is organized labor's rebuttal? What does it think of the rescue policy? We asked Walter Galbusera, confederation secretary of the UIL, who has closely watched these issues for years.

Galbusera: It is true that of recent years there has been a push on our side, sometimes very strong, to get the State involved in first-aid operations on companies whose difficulties threatened to compromise the economies of entire regions. We were, however,

in good company: right out in front, well ahead of us, were town mayors and parish priests, parliamentary representatives from the regions, and cabinet ministers anxious to avoid offending influential supporters.

M.E.: What you are telling me is that you reject charges that you were not moved solely in the interests of the public welfare. The fact remains, though, that the results of indiscriminate rescue operations are visible to us all. And we are certainly not going to call those results exhilarating.

Galbusera: Where the policy has not worked or has worked poorly, it has done so in every case because of a constraint that has weighed on all industrial policy pursued in this country of recent years. Lacking, more than anything else, has been somebody with authority to point out new ground for government intervention and to coordinate the financial resources deployed by the State. I know that I am citing a much overused example, but look at the philosophy the Japanese Miti followed and what instruments they used in its furtherance...

M.E.: Let's get back to the rescue operations. The GEPI has for years had thousands of workers on its hands; of 230 companies admitted to special receivership under the Prodi Act, you can count those that have really come back to life on the fingers of one hand. What went wrong? What was it that didn't work?

Galbusera: Both these instruments were originally designed to operate in a restricted way and with very clearly specified missions. As it turned out, their intervention gradually expanded and generalized and their functions were steadily broadened. GEPI, for instance, found itself standing surrogate, with the passage of PL 784 and PL 684, for the absolute lack of tools for implementing an aggressive manpower policy: with the assumption of shares in companies that no longer existed, GEPI had to foster substitute activities, and to transform itself into a kind of employment agency. As for the Prodi Act, it is by definition a tool for survival, thanks to which there would be swift action to clean up debris, followed by an equally expeditious sale. In practice, its operations were oriented toward moribund companies as well, and the receivers were not in a position to command the loan funding for any recovery operation.

M.E.: In view of the meager results thus far achieved, don't you think the time has come to turn over a new leaf or, at least, to start thinking about alternative approaches?

Galbusera: No question but that the scope and extent of corporate crises calls for a real strategy for rescue and restoration, to be followed with government instruments empowered to act all over the country. This does not mean, however, that there is a need for designing new instruments: let's just get the ones we have into working condition.

M.E.: How would you go about that?

Galbusera: With GEPI, with a full airing of its past management, returning it exclusively to its proper tasks, encouraging the start of broad, comprehensive programs which would in every instance be subject to scrutiny of results achieved vs. objectives. As for the Prodi Act, I would redefine its aims and guarantee provision of the necessary capital funds. In support of these two instruments, we could bring in others that are already in existence (beginning with INDENI, FIME, SPI [expansions unknown] and the rest), and which, once coordinated with each other, could help formulate a sound rescue policy.

Causes of Bankruptcy Analyzed

Milan MONDO ECONOMICO in Italian 2 Feb 84 pp 44-45

[Article by Ettore Gotti Tedeschi of McKinsey Italiana]

[Text] The trying times many companies are facing call for broader and more sophisticated approaches that those we are used to in order to assess the chances/advantages of getting out of a crisis. In this note Ettore Gotti Tedeschi, an expert at McKinsey Italiana, clears up some common misunderstandings and describes the most realistic approach to assessing the real worth of a rescue effort and the conditions for a fresh start.

When the talk turns to insolvency, failure, and their consequences we often (almost always) hear financial problems, lack of the right men, bad luck, and so on cited as their causes. You go bankrupt when you fail to deal correctly with a set of very clear-cut areas. The insolvency analysis, first of all, is fundamental: there is a conventional approach, and there is another more sophisticated one.

Conventional Analysis

The point at which a company can consider itself insolvent is hard to spot precisely (is it when it makes "the mistake" or when the consequences of that mistake get out of hand? This is helpful in the process of corporation assessment). There are corporations that are hopeless (the mistakes already made were too big) but are artificially propped up by suppliers, banks, customers, miscellaneous adversary procedures; there are healthy companies ruled bankrupt because they fail to pay wages or suppliers (by mistakes that were made, but which can be repaired); there is much confusion as to the assessment of a real state of bankruptcy and there is just as much confusion over what ought to be saved, why, and how it should be done.

The way such situations are handled seems frequently to be focused on the procedural aspects from a financial perspective, and far less on assessment from the strategic and organizational angle of the insolvency and the conditions needed for recovery. The conventional analysis of insolvency was adequate when, in a developing

economy and expanding markets, organizing skills and strategic flair, even limited, were enough to assure satisfactory results; if things went wrong, it was not difficult to see where and why. At the present stage of history, technical, economical, capital, and financial investigation is certainly no longer sufficient. The recession, the level of sophistication in conglomerate structures, and the complexities of the market mean that in order to understand the insolvency you must understand the company's strategic market position, its competitive cost structures, its organizational problems, and so on. Studies of corporate economics in this sense have taken giant strides, albeit not always in the traditional agencies.

Strategic Analysis

The road to bankruptcy leads through a set of anomalies, strategic errors, poorly handled problems, etc., which blend into one another, stimulate one another, and develop a perverse synergy among themselves (to paraphrase Ansoff, we might call them harmful results greater than the sum of the errors which brought them to pass), the company is a single body in which (these days) it is rare to find healthy parts and sick parts thriving side by side, and the process of insolvency is a voracious and implacable cancer.

The origin obviously lies in mistaken decisions that can be related to key choices: what markets to move into and how to do it, what clients to serve and what value to "sell" the client, how to produce and sell (cost structures), as well as in (apparently) less momentous decisions having to do with corporate structures, which ones to emphasize, what management systems (what to control), what skills and expertise are required, and so on. All these choices which look so numerous and disparate can in fact be boiled down (for simplicity's sake) to three groups of errors (intimately interwoven) which strategic analysis brings to light: the choice of what to do; the choice of how to do it; the choice of how to organize to get it done.

What to Do

The choice of what to do, in plain words, means what to make and where to sell it; and in recession times, that is no easy thing to do. Often the company, having neglected to conduct preliminary research and development or market surveys will pay the piper for those mistaken decisions. Markets in crisis, in transformation, presuppose careful assessment of the role to play in them, and that may make it prudent to get out of the market (if you can't give it what it wants) sometimes to the point of a change in the market itself (for example by creating new and different needs), moving from prudent management for survival in it, absorbing portions of marginal competitors (perhaps providing umbrella prices) or simply holding on to your own share if the segment justifies it

(i.e., is not declining or changing). Aside from this, a decline in demand sets up a conflict climate among competitors, complete with price wars (often unjustified: they are not selling the customer the same value) or indiscriminate (in every market segment or sub-segment). This generates shrinking input contributions and a consequent decline in investments (due to lowered available resources). By not investing so as to set itself apart or to cut costs, the company knows it it is losing money, but it will go on financing them as long as it can, hoping for an upturn which, even if it comes, will find the company in no condition to compete: weakened and, facing stronger competitors, unable to pull itself together. Despite all these facts, however, there are people who still go on talking about financial crises and heavy financial burdens.

How to Do It

The speed with which many markets are changing does not always leave time to seize opportunities linked with the transformations that have already come about or could come about in the economic cycle of one's own business and consequently in its relative costs. This leads to a slackening in the reinforcement of the company's position and to its greater vulnerability to competition. That weakening is often handled with one of several disparate attitudes, all of which lead to bankruptcy:

- stubbornly maintaining its market position without "adjusting" to the new advantages to be offered the client;
- "absorbing" the problem by looking for "slots" and "combining" the advantages in a way unfavorable to its profitability.

Organization Decisions

The familiar swift transformation of markets and the modifications they require in dealing with the new problems call for improvements in the organization. Even assuming you have an excellent product to sell on a growing market, but not an equally excellent organization, what might continue to be done will not be done, and neither the success nor the crisis will be properly managed, and the untoward consequences will spread gradually to other situations. Organizational shortcomings are often concomitant with or even upstream of the problems relating to corporate position and capabilities, and hence cannot be considered as a factor which, per se, can explain insolvency.

REL Structure Analyzed

Milan MONDO ECONOMICO in Italian 2 Feb 84 p 46

[Article by Andrea Gilardoni]

[Text] A lot of people have, perhaps a bit prematurely, called it the GEPI of the electronics industry. Actually, the Electronics Restructuring Corporation, spa, commonly known as REL differs

in a number of ways not only from GEPI, but from the other more or less explicit vehicles for government rescue. In fact, notwithstanding the prematurity of forming any final judgments, there are reasons to believe that the experience accumulating at REL is unique in many respects and that, adequately developed and tuned, it could be profitably transferred to other sectors of Italian industry.

The interesting points introduced with PL 63 in 1982 which made the financial agency part of the array of instrumentation for industrial policy, and endowing it with 210 billion lire are various in nature and considerable in authority. For this reason we might well take a closer look at them.

In the first place, it is, practically speaking, a sector-wide approach. This issue had been exhaustively debated prior to, during, and after passage of PL 675 in 1977; it seemed, though, that in what was perceived as the clash between the "sector" approach and the "factor" approach, the latter had got the best of the argument. And yet what actually emerged in the event was the realization that it may well be that the uniqueness of the problems facing companies operating in homogeneous markets does indeed call for action specifically designed to deal with them. In the case of consumer-oriented audio and video electronics and components, it was correctly found that the growing imbalance in our current accounts abroad, the sizable deficits of the individual companies, and the decline in employment levels had as their common origin the scale, the technological expertise, and the marketing power of the international competition.

A second important aspect lies in the fact that the objective put before the legislature was getting the sector off to a fresh start by means of a restoration of order to its internal structure rather than in rescuing individual enterprises. This implies as a top priority achieving higher levels of concentration before even considering competing, or even collaborating with the foreign competition. To this end, the chosen instrument was the operational company whose shares are held not only by REL but by those corporations which plan to collaborate in the new start project. The cooperating companies contribute, according to their individual abilities, plants, trademarks, or even cash: in this way, they achieve operational and strategic unification among groups which had until then been separate and in competition with one another.

Clearly, though, this approach will be feasible when corporate crisis has already developed; otherwise, it is unlikely that the entrepreneur will be ready to hand over juridical and de facto control. In these cases, it becomes necessary to implement more complex forms of management coordination and common orientation among the activities of the individual firms, but at the same time to protect and preserve their autonomy. This latter point emerges unquestionably as the core element for the success of a

good share of the intervention, but also as the most delicate and difficult to pursue. Within the constraints imposed upon REL's mission to play the role of guide for the entire industry, taking advantage of its position astride the public and private sectors and building synergy among the participating corporations, there will be room to test a new and innovative form of intervention. And all the requirements are met for it to achieve positive results.

As a corollary to the preceding point, the purpose of intervention is not necessarily to rescue insolvent companies, but also to help healthy companies, with sound development programs. From this angle, once again, it is different from GEPI; in fact, we are looking at a serious attempt to alter the concept of "rescue at all costs," which in fact has dominated our thinking up to now, and to turn it around by proposing an approach that would anticipate crisis situations and support companies with real growth potential. Incidentally, we cannot dodge the difficulties of resisting pressures to move in the other direction, which mount considerably in cases of grave insolvency.

Lastly, some emphasis must be laid on the efforts the lawmakers have put into placing constraints on REL intervention, so as to avoid temptations to spread or even to perpetuate crisis situations. To this end:

- REL can own shares in companies in the sector and in operating companies in minority proportions sufficient to influence, but not to supplant, the entrepreneur;
- pre-existing partners pledge to take over interests or shares underwritten by REL, freeing it from all commitments, for a period not to exceed 5 years;
- one condition for REL's intervention is that the pre-existing partners subscribe to an increase of capital with transfer of liquid assets;
- REL itself will encourage liquidation of those active during the two fiscal years prior to the termination of the period of intervention (in any case within 5 years) which have reported losses in excess of a third of capitalization.

Two points emerge in particular from these conditions. In the first place, the readiness to guarantee involvement of pre-existing partners as a prerequisite both for completion of programs with sound entrepreneurial content, and as a full release of the REL; further, since there is some question as to an index that in order to estimate the possible future of a company compares its capitalization with its earnings record, it introduces a case in point that makes suspension of corporate activity mandatory.

Milan MONDO ECONOMICO in Italian 2 Feb 84 pp 48-49

[Article by Giuseppe Oddo]

[Text] Here is the background on the Rizzoli-Corriere della Sera conundrum: 1984 ushered in what is undoubtedly the most complicated chapter in the company's history. Sometime within the next 10 months or so, when the final extension of its special bankruptcy status lapses, the biggest publishing conglomerate in Italy will have to choose between walking on its own feet again, gradually severing its umbilical cord to its creditor banks upon which its survival level depends at present, and liquidation.

In light of the most recent data on the economic performance of the group's corporation, nobody any longer believes that there will be a liquidation. After the improvements to its corporate structure to conform with the constraints imposed by the publishing law, with the pruning of its dry branches, the improvement in its year-end balances, and now that most of its dailies and periodicals have shown they can not only hang on but increase their current market shares, Rizzoli is turning into an ever more appetizing dish, entrepreneurially speaking -- a company that makes money. Yet, although the reasons for pessimism as to the company's fate have lost cogency -- as its special receiver, Luigi Guatri said as early as his bimonthly report for May 1983 -- the technical tangles still to be combed out are numerous and recalcitrant. First among the fearsome array is that of divesting Rizzoli Publishing s.p.a. of CORRIERE DELLA SERA Editoriale [publishing] s.p.a.

While the Editoriale controls some major newspapers (including the CORRIERE), it has never had the status of a corporation. It has never enjoyed even a hint of management autonomy, nor has it ever been able to exercise any kind of control over itself. In other words, in all these years the Editoriale has been kept out of the operations of marketing, sales, administrative management of advertising, magazine distribution, organization and systems, finances, legal matters, secretarial functions, auditing, administrative regulations, and tax matters. These functions were vested in Rizzoli Editoriale s.p.a., in the form of services for the entire conglomerate. And therefore the overall impact of its financial insolvency fell directly on the Editoriale. So far did things go that the Editoriale today is owed 37.3 billion lire in commercial credit from advertising sales (in 1983 the share due Rizzoli was set at 17 percent for CORRIERE DELLA SERA, at 25 percent for CORRIERE MEDICO, and at 29 percent for the periodicals) and one of 3.5 billion lire for distribution of periodicals. It is thus glaringly evident that in the event that Rizzoli were not in a position to settle these debts, the financial equilibrium of the Editoriale, which wound up 1983 with a net fiscal-year profit of 11.9 billion lire (a margin which in 1984 was projected at 18.1 billion), would be seriously compromised.

TABLE 4 GROUP CHECKUP

(Rizzoli Conglomerate Performance, in billions of lire)

	1982 Year-End	1983 Preliminary	1984 Budget
Gross production	690	771	840
Value added	312	352	383
Gross operating margin	-21	27	53
Net operating margin	-48	--	29
Net Result	-157	- 19	22

SOURCE: Application for extension of receivership, October, 1983

TABLE 5 INDIVIDUAL RIZZOLI COMPANY PERFORMANCE
(January-October 1983, in millions of lire)

Rizzoli Editore	- 31,673
CORRIERE DELLA SERA	13,669
NES	7,657
EDI-ME	5,185
NOVISSIMA	559
SET-OTE	2,160
SETA	--
Milano Libri	25
RPS	- 290
Libreria Internazionale	68
PENTA	- 266
Rizzoli Arte	- 554
Sansoni	- 756
Carteria di Marzabotto	- 1,726
TOTAL	- 2,490
Unconsolidate debt load	- 6,808
Total margins	- 9,298
Set-asides	- 4,842
Group performance	- 14,140

(Source: Report by the receiver (Luigi Guatri), November 1983)

What steps will be taken then to keep the balances achieved thus far from weakening? Says Luigi Della Rocca, special receiver for the CORRIERE DELLA SERA Editoriale: "The most urgent problem is that of advertising. Editoriale ought to be able to bill its advertisers directly, so that credit for payment goes to them, rather than to Rizzoli, as it does now. Editoriale ought to give Rizzoli, if anything, only a certain commission."

That proposal, however, has met with some opposition: on one side -- it was pointed out -- there would be a whole string of technical problems to solve, connected with redesigning administrative software; on the other, to do so would disturb advertisers' routines. Counters Della Rocca: "It is true that Rizzoli has contacts with advertisers, but even so almost all of them have to do with contacts on behalf of Editoriale papers and, in particular, of CORRIERE DELLA SERA. And it should be said, as well, that two thirds of the employees in Rizzoli's advertising department are on the Editoriale's payroll." Why, then, don't top management people at Rizzoli agree with this proposal? Probably because they know that overmuch autonomy for the Editoriale, which is the conglomerate's "main course," would wind up weakening Rizzoli, which is, by comparison, a mere "antipasto" (true, the preliminary estimate for 1983 does show remarkable improvements, but nevertheless indicates a budget loss of 45 billion and a running balance with 30 billion worth of red ink.

Which Way Out?

The solution that seems to be gaining in favor is in fact another. As Luigi Guatri, Rizzoli publishing's special receiver explains: "On the advertising question we are considering setting up a concessionaire company wholly controlled by the group, open to possible outside investors, on which there are already tentative talks in progress. It would be the biggest concessionaire company on the market, in that it would manage advertising not only for the Editoriale but also for the group's other papers. The unions are opposed to it right now, but as the problems are clearly spelled out they will gradually be settled."

There might, however, be a third way out that was barely hinted at in the application for extension of the special receivership. "An alternative that merits careful attention," it says, "would consist of incorporating the entire current advertising division into the Editoriale; given this hypothesis, CORRIERE would become the concessionaire for advertising for Rizzoli publishing." Della Rocca, deep down, leans more toward this idea. But, stipulates the Editoriale's special receiver, "One thing has to be clear: no matter how this concessionaire is set up, Editoriale must hold a controlling interest."

The problem, in other words, is a long way from solution. Agreement has been reached, though, on another matter deemed critical: the plan to cut the payroll so as to get labor costs down. "At first," says Guatri, "there were 1,530 excess people on the payroll."

In October of last year that had dropped to 980, and now we are talking about 720 people, remembering that last September another 51 went onto wage supplements. To maintain an incentive for quitting we have never stopped granting severance pay, which has cost us 700 million lire per month in outlay. Smaller settlements are made in cash, and the rest are spread out over a few months." The areas where staff "dispersal" is being conducted are the central offices, the books division, and the industrial section.

These are the more urgent measures on which both receivers, albeit with different approaches, are insisting. Still pending, though, is the final and most important question: under what conditions can the group be released from special receivership, inasmuch as outside entrepreneurial intervention is absolutely necessary to restore balance to the economic and financial situation? On this score the receivership extension ruling is clear, and suggests two ways out: either transfer 160 billion lire worth of shares (transferring Editoriale either in whole or in part), or make partial payment to suppliers (40 percent) and banks (30 percent), converting the remaining funds into corporate capital for suppliers and into medium-long-term credit for the banks, which would be reimbursed in 7 years at interest of 10 percent.

Are these roads really passable? Maybe they are. But it is the group of seven banks led by the Nuovo Banco Ambrosiano (which rejoices in 200 billion lire worth of loans) that will have the final word. And, along with it, the other lenders holding Rizzoli paper. Besides, it already seems that it will inevitably be the banks that decide, since, without the discounted interest rate (which in some observers' opinion has had the effect of a hidden increase in capital) it would be unlikely that Rizzoli could have won a second year of special receivership. On this point a lot of people agree. Even Carlo Scognamiglio. The former Rizzoli board chairman has said expressly that the quickest solution would be for the banks temporarily to take over the publishing conglomerate lock, stock, and barrel, pending the emergence of new buyers. In that event, the influx of new capital could exceed the time-limit imposed by the special receiver. There you have a solution that looks very much like a "third way," whose direction grows more evident with each passing day.

GEPI's Record Reviewed

Milan MONDO ECONOMICO in Italian 2 Feb 84 pp 50-53

[Article by Lia Migale]

[Text] The main protagonist, in the role of government rescuer, is unquestionably GEPI, the company which for 12 years, now, has been stepping in to help industrial companies in crisis with the specific mission of restoring them to health. And for an equal number of years this anomaly in the Italian system has been the target for constant criticism, as well as for a steady flow of calls for help. Its history is one of controversy as to whether it was

right to spend all those billions of lire to keep moribund companies alive when there was all that unemployment, or whether it made any sense to shut down a factory and thereby cut off steady wages in areas where you could count the industrial plants on the fingers of one hand.

Of course you can read in GEPI the history of the models for industrial reorganization that have followed one another in Italy since the end of the boom years; from the days when the term "restructuring" referred to a few segments of corporate management and, consequently, "rescuing" a company meant stepping in at a point of contained crisis, within a healthy sector and an economy still in robust expansion. That was before we came to the present situation, wherein crisis has invaded whole sectors and the entire organization of work, and consequently rescuing has come increasingly to mean creating new jobs.

It is no coincidence that GEPI itself has undergone a restructuring process, substantially modifying, in response to legislative reforms, the rules as to how and where it intervenes. With the passage of PL 184 in 1971, which established GEPI, its so-called ordinary intervention was codified according to two parameters: maintaining employment levels and the practical likelihood that the company could be restored to health. As early as 1977 the special crisis situation, or the failure of broad industrialization to materialize in the South, meant that rescue operations were confined, under Article 15 of PL 675, to the Mezzogiorno and the depressed areas of Central Italy. That definition of the area, and hence of intervention procedures, which was accentuated in 1980 with the passage of PL 442 -- forced GEPI gradually to withdraw its participation from the Center-North.

The real revolution over mode of intervention, however, stemmed from to other regulations. With PL 784, passed in 1980, and PL 684, passed in 1982, the government empowered the Interministerial Committee for Industrial Policy Coordination (CIPI) to pinpoint the crisis situations in which Gepi was to intervene to create new jobs. Under these two laws, the company was entrusted first with a staff of 9,500, to which were added 5,200 more, and ordered to create replacement enterprises by 31 December 1983. This was an intervention defined as "extraordinary," which brought a whole lot of workers in under GEPI's roof, but not the company for which they had worked, without management, without organizational structures. These workers were, for the most part, (even now there are 13,000 of them) put on the payrolls of "tin-can" companies, empty shells, in other words, created for the purpose of managing the wage supplement program pending the development of new enterprise.

But, once again, the controversy swirled up around a new reform plan for GEPI. The plan spoke of reviving fiscal initiatives, of new funds. "Reforming Gepi is very simple. All it would take would be to sweep out that blizzard of laws and mini-laws that has come down on top of it in the last few years." That is the summary

judgment passed by GEPI president Giuseppe Bigazzi. Aggressive, efficient, modern (but not post-modern), Bigazzi hopes for a return to the constituting act, PL 184, following an orderly scenario: a new law for the Mezzogiorno, incentive laws, and coordination among the rescue agencies. That is precisely what he means: getting back to the policy of "rescuing companies," and away from the excess manpower problem (PL 784 and 684), because, as he puts it, "Rescue is something we know how to do, and we are the best at it. At other levels we simply fall apart."

The Truth About the Hearse

If this is the case, then what is the truth about this financial agency, described at various times as the company doctor, the hearse for moribund companies, or a welfare agency? The good and the bad in this agency is contained in a few figures. In the good column we must certainly enter the 36,000 workers it manages, the 101 companies sold to private buyers providing jobs for 23,670 workers, after treatment and cure operations, a turnover of 902 billion lire with exports worth some 250 billion, capital assets valued at 1 trillion, plus tax payments of one kind and another totalling around 200 billion. In the red-ink column, we must enter more than 16,500 workers drawing wage supplements; heavy budget losses (159 billion in 1982, 200 billion in 1981); placement in producing companies of only a trifle over 3,000 workers of the 14,600 called for under PL 784 and PL 684. All told, in its 12-year existence GEPI has received 2.156 trillion lire for dealing with a total flow of workers numbering 75,429, of whom 23,670 were rehired when their former employers' company was sold and 15,670 left through turnover. That adds up to average annual employment of about 36,000 workers.

It is a little more complicated, though, to put a number on the companies "in input and in output." The fact is that restructuring was undertaken at the corporate level as well, and one company could and did split into two or more autonomous productive units; hence it does not mean much to say that of 113 agencies treated, 101 were sold. The same applies to saying that there are 199 participations still in the portfolio, since there you are talking about very disparate stories: against operating companies (the majority) you have companies (be they tin-cans or not) undergoing liquidation, others getting a second start, companies running on wage supplements, and others that have stopped operations or are in the process of demobilization.

In short, the upshot is that the government has invested for example in 1982, through GEPI, 12.5 million lire per worker and has taken a loss of 6.3 million (figures which just about double if you leave out those on wage supplements). Is this too high a cost? Or is it a productive cost? "Everything in Italy is black or white," says Gigazzi. "There are some who say let's stick to rescues, others who say let's not do rescues, but let's

concentrate solely on innovation. In other countries, they count the social cost of the operation, as the United States did in the Chrysler case, for instance. We ran an analysis for Innocenti-Maserati for the same purpose. And what we found was a profit for the State amounting to several hundred billion lire. In fact, when Innocenti in its time paid 280 billion lire in VAT, the State got revenue it would otherwise never have seen. Or when Innocenti exports: 20 percent of Innocenti's turnover and 80 percent of Maserati's represent hard currency coming in. Or take INPS (social security) which doesn't pay 28 billion, but we pay 130 billion in taxes. Not to mention the fact that when we rescued Maserati we were keeping an extremely prestigious "made in Italy" mark alive."

There are also some people who wonder whether giving a company, legally a "corporation," the job of transferring funds from the State to enterprise which are pure incentives. And whether, taking it all in all, it might not be better to provide incentives purely by law and get rid of a structure that costs 11 billion lire a year. "The problem," replies Bigazzi, "is that we are living in a jungle of rescue agencies: GFPI, REL, the Prodi Act, the regional financing agencies, ENI, IMI, and so on. And so why not start by saying which of these outfits involved in rescue work is the most efficient? Since the Prodi Act went into effect it has returned no more than three or four companies to private hands. Over that same period, we returned 56. And what are the Prodi Act's operating costs? Or FIME, whose structure alone costs 4 billion a year and which handles only 963 workers, as against our 11 billion costs for managing 36,000 workers. Furthermore, financing is not the only thing GEPI does. Its technical structure is trained in industrial rescue operations, its can deal with personnel organization, marketing, finance, administration, and investment management. We don't have and don't want the marketing organization which the partner would bring us."

A look at the overall picture of the rescue giant's joys and sorrows shows us first of all that GEPI's biggest problems and heaviest losses occur when it gets involved in two specific sectors: electronics and shipbuilding. Those two sectors employ 15 percent of GEPI workers and in 1982 accounted for 30 percent of its total losses.

The "family jewels" are more various. From Maserati, which, when it was rescued, was turning out only 300 vehicles a year but which in 1983 built 6,000 and plans to build 9,500 in 1984, to Marvin Gelber, an incredible company that made shirts for the low end of the market, a genuine industrial monster that made 15 million shirts for a single German customer in a year. Found in 1979 when its market had vanished because its only source of orders had folded, it was transformed into AC, a company with 900 people on the payroll that created the Rodrigo brand, has a diversified market serving several thousand customers on various production lines; and which as Bigazzi puts it, "is healthy, up and around on its own two feet."

TABLE 6: GEPI WORKERS DOING JOBS OR DRAWING WAGE SUPPLEMENTS
(Payroll trends from founding to 30 June 1983)

	Signed On		Transferred		On at Year-end		To Be Hired		Turnover	
	CENTER North	Casmez	CENTER North	Casmez	CENTER North	Casmez	TOTAL	CENTER North	Casmez	Casmez
<u>Ordinary</u>										
Startup to 77/9	45,595	10,924	5,083	2,838	35,052	7,808	42,833 ⁽¹⁾	--	5,507	278
77/9 to 83/6/30	--	6,429	13,679	2,090	12.609 ⁽²⁾	10,329			1,653	8,837
										165 (3)

Under PL 784	--	8,095	--	--		7,146	34,436			949 (3)

Under PL 684	--	4,386	--			4,352				34
	45,595	29,834	18,742	4,928	12,609	21,827			14,244	1,426
	75,429		23,670				34,436		1,653	15,670

(1) Workers on GEPI payroll as of 30 June 1977

(2) Includes workers on the payroll at a plant in the depressed area of Central Italy

(3) Allowance made for re-employment of 566 workers under PL 784

SOURCE: GEPI

TABLE 7

Chi è stato ceduto 1) (andamento cessioni Gepi dalla costituzione al 30 giugno 1983)								
	2) Centro-nord			Cesmez			3) Totale	
	4) Aziende	5) Addetti	%	Aziende	Addetti	%	Aziende	Addetti
Dalla costituzione al settembre 1977 6)	18	5.063	27	6	2.838	58	24	7.901
Da ottobre 1977 al 30 giugno 1983 7)								
— ordinari 8)	57	13.679	73	18	2.020	42	75	15.699
— sostit ex 784 9)				2	70		2	70
	75	18.742	100	26	4.928	100	101	23.670
Fonte Gepi 10)								

Key:

1. What Has Been Taken Over (progress of GEPI take-overs from the adoption of Constitution to June 1983)
2. Center-North
3. Total
4. Companies
5. Payroll
6. From Constitution to September 1977
7. From October 1977 to 30 June 1983
8. Regular
9. Under Law 784
10. Source: GEPI

TABLE 8

Tutti i debiti della Gepi 1) (rapporto indebitamento-fatturato netto)					
2)	1978	1979	1980	1981	1982
Fatturato	668	785	860	891	902
Debiti verso istituti bancari a breve 3)	119	127	106	75	56
Debiti verso istituti a medio termine 4)	147	123	154	222	303
	266	250	260	297	359
Rapporto indebitamento-fatturato 5)	0.40	0.32	0.30	0.33	0.44
Fonte Gepi 6)					

Key:

1. GEPI's Total Debts (debt-net turnover relationship)
2. Turnover
3. Short-term debt to banks
4. Medium-term debt to banks
5. Debt-turnover relationship
6. Source: GEPI

TABLE 9

Di quanto batte cassa ¹⁾				
(stanziamenti ed erogazioni a favore della Gepi dal 1-1-1980 al 30-9-1983 miliardi di lire)				
Disposizione ²⁾ legge	Importi stanziati ³⁾	Anno di competenza ⁴⁾	Importi erogati ⁵⁾	Data di erogazione ⁶⁾
28-11-80 n 784	168	1980	168	1981
5-8-81 n 465	360	1980		
	156	1981	516	1981
5-3-82 n 63	30	1982/83	30	1982/83
7-8-82 n 526	156	1982	156	1982
26-4-83 n 130	240	1983	240	1983
Totale	1 110		1 110	
I dati sopra riportati possono essere così riepilogati tenendo conto degli anni di competenza ⁷⁾				
Anno ¹⁰⁾	8) Stanziamenti	9) Erogazioni ricevute		
1980	528	—		
1981	156	684		
1982	171	171		
1983	255	255		
	1 110	1 110		
Fonte Gepi ¹¹⁾				

Key:

1. Time-Frame for Disbursement of Funds (GEPI allocations and outlays from 1 January 1980 to 30 June 1983; in billions of lire)
2. Law
3. Amount allocated
4. Year of allocation
5. Amount of outlay
6. Year of outlay
7. Data shown above may be summarized taking into account dates of allocation
8. Allocations
9. Outlays received
10. Year
11. Source: GEPI

When IRI Takes Over

For the twin colossi of State Participations, IRI and ENI, who incidentally are GEPI shareholders, the rule is "do it yourself." In other words, health care or replacement, whichever is indicated, is provided at home.

Inside IRI, SOFIN is the company with the longest history of stepping in to bolster ailing companies. Actually, this corporation's role is a composite governed by the striking anomaly of its position: that of a lending agency which does not belong to the sector and is part of another agency structured overall to serve lending sector companies. In fact, as SOFIN's managing director, Agostino Paci explains, "Our company has two different kinds of mission: one is to manage companies that are not properly part of the usual sectors, and the other is to fold up companies which are not strategically important to the Institute and can thus be disposed of. For this latter group we encounter situations of economic equilibrium and others severely out of true. In this case, our job is to reconvert them and restore them to health. This is why DOFIN may be described as specializing in restructuring as well as in disposal."

The "star-patient" case, but also the experience the company cut its teeth on, is SIDAM, the company that emerged from the UNIDAL liquidation, in which the two giants of the Italian confectionery industry, Motta and Alemagna, came together. What SIDAM did was to pick up the vital parts of UNIDAL (which was put into liquidation by SME, IRI's food products lending agency) and begin operations in 1978 and 1979. "It started," says Paci, "with a market that had been almost entirely lost, with 4,000 laid-off workers on its hands, and with a track record of 60 billion lire in losses in 1977. In 1983, we wound up the year breaking even, or maybe with a slight profit. We have a healthy company that can not only be put up for sale, but which has already attracted the attention of private buyers. Even though, as of now, IRI has decided to make it part of SME again."

SOFIN, which in 1982 reported a loss of 88.6 billion lire for the year, now manages a total of some 11,000 workers in ten companies, which in 1983 did a little less than 700 billion lire worth of business. After an experimental start with SIDAM, SOFIN bought its first group of companies in 1982. They were San Giorgio household appliances, United Optical of Venice (which includes Galileo and Salmoiraghi), SAFOG, OMG of Gorizia, and San Giorgio Pra of Genoa. "Obviously, in our case the frontiers are movable, and we have companies coming in and others going out. The Institute has a committee on withdrawals which scrutinizes companies that are not well-placed and can arrange for their transfer."

Among the best-known companies to come out of SOFIN, the foremost is Paccarese, the biggest agribusiness in central Italy, with headquarters at the gates of Rome, which has made history among liquidation cases. Among SOFIN's holdings as of the end of fiscal 1982 was SPI, a lending agency much in the public eye at present.

It might properly be viewed as IRI's operational tool for corporate assistance in areas where the excess manpower problem is most acute. Both Italsnack and Sweet Mark, however, were disposed of through normal channels.

The ENI Experience

Altogether different is the record of ENI, which emerged from a restructuring phenomenon very like the one we are experiencing today, and faced the problem of placing a very large number of employees in replacement jobs. It's a history and an experience known as INDENI, and its birthplace was the Monte Amiata district. The problem was first handed to ENI following the survey of the mercury mines, formerly known as EGAM, in the area. The mines could no longer be worked because, in terms of cost, they were priced out of the market in the wake of huge discoveries of mercury in other countries, such as Algeria. In 1978, with the passage of PL 279, ENI was authorized to acquire interests in the Amiata zone which could foster replacement and reconversion activities for the sector. That commitment, furthermore, won prior agreement from the labor unions. And thus was born INDENI (offspring of the old Mercurifera Monte Amiata following the expansion of sectors of intervention), an agency for industrial loans which, as the holding company's operational arm, had as its prime mission the provision of replacement industries in partnership with private and cooperative industrialists, whose goal was lasting re-employment for the now redundant workers.

Even though INDENI's activities can theoretically be extended to the entire country, to cover the various ENI crisis points, its principle area of activity is still the Amiata region, where it has set up a number of businesses, some of them still in the start-up stages. One is Amiata s.p.s., which produces ornamental plants and flowers in greenhouses and thus far has provided jobs for 200 workers (and plans to hire 20 more soon) 100 of them ex-mine-workers; Rivat, now in the early startup stage for production of fiberboard panels, now employe 49 workers and will have 60 on the payroll when it hits its speed; and Rhibena, which already has 63 people working for it. Another enterprise, Amiagel -- planned for processing and canning bluefish -- ran into trouble while the investment was in the planning stages, and we are now studying plans to reconvert it. Other enterprises, all falling into the "small enterprise" class, are under INDENI's wing outside the Amiata region, among them Gefran, south of Foggia, and Tesar in Arezzo.

At present, though, even Indeni is in the eye of the restructuring hurricane. Pelted with criticism over its high costs and the low efficiency level of its activities, at a time when ENI, like all the rest of Italian industry, is striving to cope with "big numbers" in the excess manpower area (losses in the chemical industry alone come to 24 million per worker), is casting about for a new job description for its lending agency. Things are at such a

pass that, more than ever, Indeni, its activities, and the narrow targeting of its costs are under a very thick cloud of reservations. The philosophy under which the lending company is undergoing review rests on the quest for getting the top companies in the sector involved with it, and hence for activities related to ENI's own specific field of action, first and foremost energy; on the other side, there is a desire to get Indeni to step in aggressively in putting together economically sound development initiatives rather than concentrating exclusively on protecting jobs. Because, as ENI president Franco Reviglio recently explained it: "It is always a disagreeable task to cut back on jobs, but what makes it really painful is the fact that the demand for labor is not increasing. That means we have to create more jobs, and ENI must do this while being careful not to take markets away from other Italian companies. We have to find replacement activities that will increase our exports and, wherever possible, cut back on our imports."

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DUISENBERG PLEADS FOR FURTHER CUTBACKS

The Hague ANP NEWS BULLETIN in English 17 Mar 84 pp 1-2

[Text] The Hague, 16 Mar--Netherlands (Central) Bank President Wim Duisenberg today praised Finance Minister Herman Puding for his call for drastic cutbacks in Holland's social security payments. He rejected suggestions that reducing the government's budget deficit was no longer sacrosanct.

Speaking as a 'crown member' of the Social and Economic Council (SER) Duisenberg objected to the 'lightheartedness' in the recent public debate on the budget deficit.

The SER, made up by representatives appointed by the government, the employers and trade unions, is the chief advisory body on social and economic questions.

Duisenberg noted that recent suggestions that money saved by government economies could be used to ease the tax burden on private individuals left little room for structural reductions in the budget.

Debt Problem

The bank president supported the government's proposed 'July 1 package,' designed to reduce government spending by some 760 million guilders by substantial cuts in unemployment and disability insurance benefits.

He said the 760-million-guilder savings were indispensable to prevent the deficit from growing. An actual reduction depended heavily on the strength of economic recovery, Duisenberg said.

He warned that a deficit even at present levels could lead to far-reaching economic distress in the short or medium term, including steadily rising government debt and rising interest rates.

He said this would increase investor wariness as the government failed to come to grips with its own finances.

In this context, it was to be kept in mind that redemption on government debts was due to rise six-fold in years ahead, Duisenberg warned.

BOLKESTEIN ON ADEQUACY OF EXPORT PACKAGE

The Hague ANP NEWS BULLETIN in English 22 Mar 84 pp 1-2

[Text] Hupphen, 22 Mar--Holland's export package is diverse enough to mesh well with world demand and its added value is some 60 to 70 percent higher than that of the average European competitor, Foreign Trade Minister Frits Bolkestein said here last night.

Addressing a meeting of the Netherlands Society for Industry and Trade, Bolkestein said Holland's volume exports last year had grown faster than that of West Germany by between five and six percent.

Such figures gave the lie to criticisms that Holland's export package was too 'one-sided,' since West Germany was commonly regarded as a shining example of a country with a strong export package, he added.

The minister also rejected suggestions that Dutch export products had too little added value and an insufficient share of 'high technology,' pointing out that both terms were rather slippery to define.

'I sometimes have the feeling that we are mesmerised by something which we do not understand, such as 'high technology,' Bolkestein mused.

But he noted that Holland, as one of Europe's largest agricultural exporters, was able to produce seed, bulbs and seed potatoes without equal in the world.

'That's also high-tech and has a high added value,' Bolkestein noted, as had Holland's chemical, electronics and engineering industries.

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OFFICIALS OPTIMISTIC ABOUT TRADE WITH CHINA

The Hague ANP NEWS BULLETIN in English 20 Mar 84 pp 1-2

[Text] The Hague, 20 Mar--Dutch farm ministry officials were optimistic after an initial round of talks with a visiting Chinese delegation here yesterday about potential orders worth hundreds of millions of guilders.

Mr A. de Zeeuw, the ministry's director-general for agriculture and food supplies, said he was confident the Sino-Dutch farm talks would bear fruit.

Speaking after the opening session of the mixed Sino-Dutch agricultural working group, he said Peking was particularly interested in turnkey projects in the fields of agriculture and fisheries.

A special trade fair for Dutch industry to be held in Peking in December would centre on both these areas, he added.

But talks with the official Chinese delegation, headed by Deputy Minister for Agriculture Xiang Chongyang, had shown there were few prospects for Dutch exports of finished farm and fishery products, he said.

The five-strong Chinese delegation flew in on Sunday for a 10-day visit. The visit was initially scheduled for the end of April but it was brought forward at China's request following the restoration of diplomatic relations at the level of ambassadors on February 1.

Land Reclamation

De Zeeuw said the meeting had covered not only the plans for the Peking trade fair, but had dealt with China's needs for its coastal fishing industry and land reclamation projects.

The Chinese had shown interest in possible Dutch help in reclaiming three large plots of swamp land, two of which were to be used for farming, and the third for aquaculture (fish hatchery).

Mr J. Pape, chief of the Dutch farm ministry's export promotion and economic cooperation department, said today's talks had also included China's plans for construction and hydraulic engineering projects, followed later by agricultural projects.

Pape said the Chinese plans allowed for importing foreign know-how and supervision for building and engineering projects manned by Chinese workers.

He said Holland might take part in the agricultural projects by providing not only technical and supervisory skills, but also by supplying machines, glasshouses, livestock, seed and other farm supplies.

Protein-Rich Food

Pape said China's need to delve the protein-rich sea in its efforts to feed its some 1 billion population could provide a good opening for Dutch suppliers of ship and marine accessories.

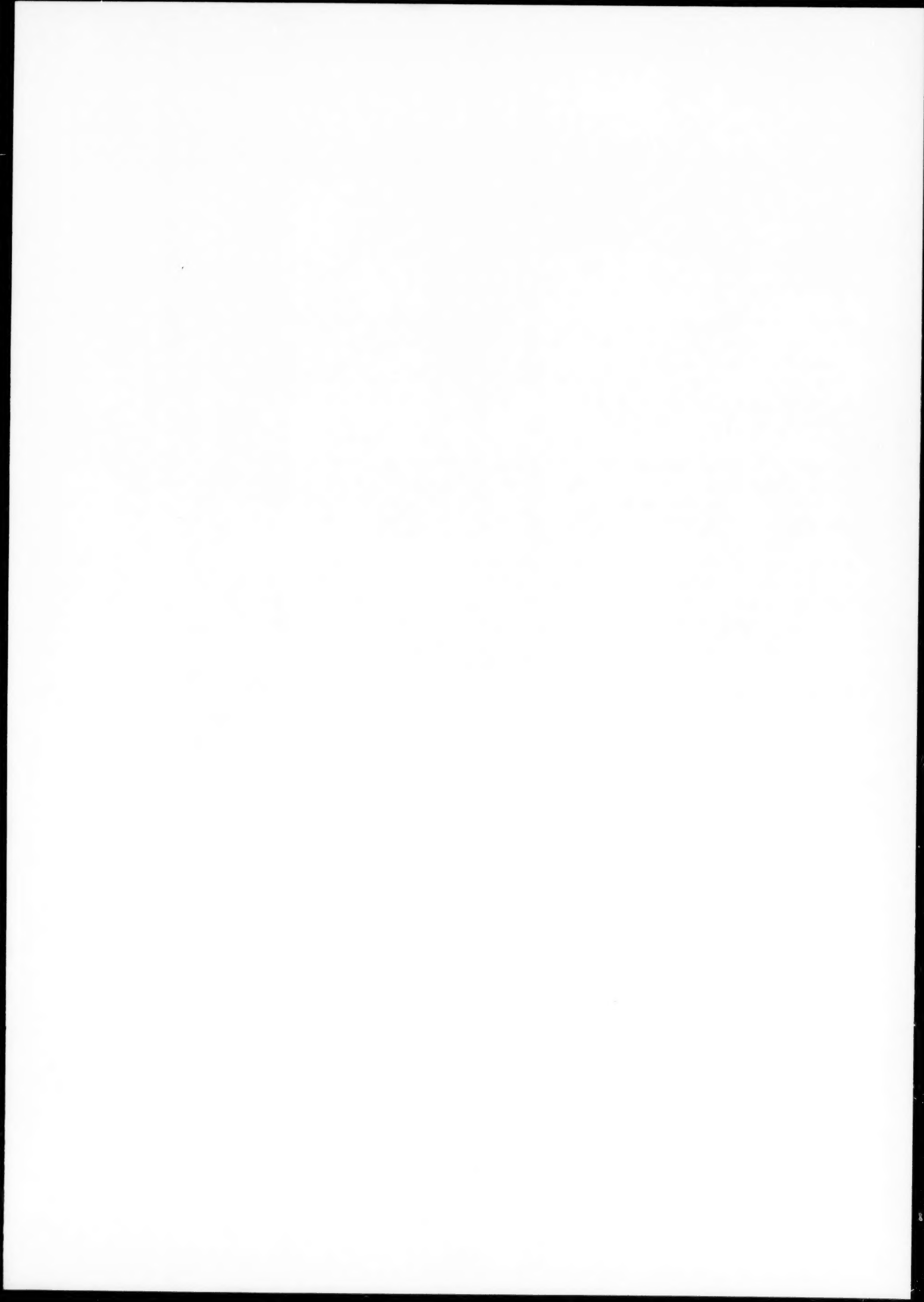
De Zeeuw said the Dutch Government was now thinking principally in terms of 'turnkey' projects, which could eventually lead to other forms of trade.

He said a working group from the Dutch farm ministry would pay a visit to China later this year, and noted that China and the Netherlands had agreed to strengthen their cooperation in the fields of agricultural research and education.

De Zeeuw said the agricultural university of Wageningen in the eastern Netherlands would also resume its exchange programme with Peking, which was shelved in 1981 when Sino-Dutch relations cooled after the Dutch Government gave the green light for the export of two Dutch conventional submarines to Taiwan.

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